



Aino Maaninka

**BEHIND THE SCENES – DOMINANT LOGIC’S INFLUENCE ON DYNAMIC
CAPABILITIES IN M&AS OF A FINNISH HEALTHCARE COMPANY**

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Author Aino Maaninka		Supervisor Lauri Haapanen	
Title Behind the scenes – Dominant logic's influence on dynamic capabilities in M&As of a Finnish healthcare company			
Subject Management	Type of the degree Master's degree	Time of publication October 2020	Number of pages 85
<p>Abstract</p> <p>This qualitative study examines the dominant logic's influence on the development paths of microfoundations of dynamic capabilities of a Finnish healthcare company that has acquired dozens of smaller service providers in the same sector during the past five years. Moreover, the aim is to find out what kind of contradictions caused by distinctive dominant logics emerged in M&A processes, and how these contradictions were managed by the acquirer. In order to gain a comprehensive understanding of the often implicit phenomena that take place in the case organizations, a qualitative data was gathered through interviews with the executives of the acquiring company and previous owner-managers of the acquired entities.</p> <p>The theoretical part of the study introduces the theories of dominant logic and the dynamic capabilities framework. In order to comprehend the dominant logic's influence on the development paths of firm-specific microfoundations, and further dynamic capabilities, a conceptual model of the theories is build and presented.</p> <p>The findings of this study implicate, that the dominant logic of a firm may explain the development of organizational capabilities, and therefore, it can contribute to the formation of a unique, firm-specific set of dynamic capabilities. The findings show that the level of innovativeness and orientation towards change corresponds with how weak versus strong the prevailing dominant logic in the organization is. The weaker the prevailing dominant logic of a firm, the higher the absorptive capacity of that specific firm, and followingly, the stronger the contained dynamic capabilities. On the other hand, the stronger the dominant logic, the lower the level of absorptive capability in the organization, and therefore, the more challenging it is for the organization to reconfigure its current assets.</p> <p>Due to different dominant logics and capabilities that these distinct mental schemas highlighted, contradictions between the parties emerged in the perception of relevant organizational processes. Contradictions were managed through pre- and post-acquisition interviews. Another means to handle the emerged contradictions was to operate under more than one dominant logics.</p>			
Keywords Dominant logic, Dynamic capabilities, Microfoundations, M&As, Conflicts			
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1 INTRODUCTION

The aim of this study is to gain insight of dominant logic's influence on firm-specific microfoundations of dynamic capabilities in case of M&As of a Finnish healthcare company. Moreover, the objective is to examine the emerged contradictions caused by different dominant logics of the acquiring company and the acquired entities, and how these contradictions are managed by the acquirer. This chapter provides an overview of the topic by introducing the background, objectives and research questions of the conducted study. Before moving to the theoretical part, the structure of this research is presented briefly.

1.1 Background of the study

The number of both domestic and cross-national mergers and acquisitions (referred as M&As for now on) has increased remarkably during the last decades (Shimizu, Hitt, Vaidyanath & Pisano, 2004; Teerikangas, 2006, p. 14). One could think that an integration of two domestic entities contains in most cases a diminished level of uncertainty and the perceived risk is considered as low (Shimizu et al., 2004). Moreover, the whole integration process is often perceived as smooth in comparison to cross-national M&As due to the relatively small institutional and cultural distance. This is not, however, often the case. In order to understand both parties extensively during a business integration, it is necessary to address the attributes and elements that guide the dynamics behind different processes, behaviors and mindsets of companies that enter M&A processes. These attributes are often implicit in nature, which makes it more challenging to perceive and address them explicitly.

In order to tackle the challenges in M&As, it is reasonable to study the underlying elements that affect to the organizational performance. Theories of *dominant logic* (Prahalad & Bettis, 1986; Bettis & Prahalad, 1995) and *dynamic capabilities* (Teece, Pisano & Shuen, 1997; Teece 2014) reveal the logics behind different organizational mindsets and processes. These two theories can even be applied in different processes of M&As to clarify their diverse nature (see e.g. the study of Côté, Langlay & Pasquero, 1999). In this research, I study M&A processes of a Finnish company that operates in healthcare sector in the domestic market. The company has acquired

dozens of smaller service providers in the same sector within the last five years. This can be seen as an exceptional case in terms of the high number of the acquisitions made in a relatively short timeframe in the somewhat small Finnish market. In order to holistically understand how different mental models influence on various operations and culture of the acquirer and the acquired entities, and furthermore to the M&A processes in the organizations, a comprehensive examination of the attributes of dominant logic and dynamic capabilities can be seen as beneficial.

It seems that dominant logic together with the theory of dynamic capabilities of firms has not been studied extensively in case of M&As. Even though there is a plenty of research of firm resources and dynamic capabilities in case of M&As (see e.g. Barney, 1991; Teece et.al, 1997; Zander & Zander, 2010), it appears that researchers have not paid too much attention to existing dominant logics of acquirers and acquired entities. However, e.g. Nätti (2005) has applied theories of dominant logic and dynamic capabilities separately in the context of knowledge transfer in collaborative relationships of professional service organizations. Even though both of the theories have been studied separately in various contexts (see studies of dominant logic e.g. by Bettis & Prahalad, 1995; Lusch & Vargo, 2006; Campos, de la Parra, Parellada, 2012; and studies of dynamic capabilities e.g. by Teece et al., 1997; Haapanen, Hurmelinna-Laukkanen, Nikkilä & Paakkolanvaara, 2019), there seems to be a gap in research that utilizes both of the theories in the same context, and their relation to each other. To understand the holistic nature of different organizations that confront M&A processes, it is reasonable to take both of the theories into account due to their similarities and overall significance to the organizations in question.

By introducing a conceptual model that takes the theory of dominant logic and dynamic capabilities framework into account, it is possible to study the prevailing phenomena extensively among the given organizations. Followingly, it is reasonable to assume that this study creates value not only the case organization, but also for the further research in terms of contributing to the current literature of dominant logic and dynamic capabilities of firms by examining and exposing the correlations between these two fundamental theories in management literature. Furthermore, as revealing the underlying attributes that guide organizational mindsets, processes, and behaviors,

it is possible to gain even mutual benefits among other organizations that enter M&A processes.

In addition to the willingness to contribute to the existing literature and research, I have personally been eager to gain an in-depth understanding of the underlying elements that guide the organizational behavior and performance. Especially M&As and their multi-sided nature has always interested me, and I would like to work among M&A consulting in the future. While familiarizing myself with management literature during my studies, I noticed that almost every time that organizations confront a change situation, at least some level of resistance emerges towards that change. In order to tackle that resistance and to minimize its negative effects on organizations' performance while facing change, studies in this field are justified and needed.

1.2 Research objectives and questions

As the previous literature and research has focused on studying the theory of dominant logic and dynamic capabilities framework mostly separately, this study aims to reveal the significant similarities and connections between the two theories. The objective of this research is therefore to gain insight of how the dominant logic of a Finnish healthcare company has influenced the development paths of its organizational capabilities. Moreover, the study tries to find out what kind of contradictions caused by distinctive dominant logics emerged in M&A processes, and how these contradictions were managed by the acquiring company. The main aim of this study is thus to find out how the often implicit organizational mindsets guide the formation of organizational capabilities. Therefore, the research seeks to answer the following research question:

Q: "How the dominant logic has influenced the development paths of microfoundations of dynamic capabilities of a Finnish healthcare company?"

In order to gain a comprehensive understanding of the research question above, and to understand the possible contradictions between the acquiring company and the acquired units caused by different organizational mental schemas, two supportive questions are introduced:

SQL: What kind of conflicts are caused by different dominant logics and microfoundations of dynamic capabilities of the acquirer and the acquired entities?

SQ2: “How these conflicts are managed by the acquirer?”

In order to expose the possible contradictions between the case company and the acquired units, a close examination of the acquired units' mental schemas is also needed. As a conclusion, this research will not only benefit the organizations in question by increasing their awareness and understanding of the implicit phenomena that take place in the organizations, but it will also fill the gap in management research by examining the connections between the theory of dominant logic and dynamic capabilities framework. To attain an extended understanding of the research questions above, a conceptual model of the two theories is formed. The conceptual model helps to expose and understand the connections between firm-specific dominant logics and dynamic capabilities, which in turn helps to identify the development paths of different organizational capabilities.

1.3 Structure of the study

This study contains a theoretical and an empirical part. In the second chapter, the theory of dominant logic and the dynamic capabilities framework are introduced, and their impacts on M&A processes are discussed. In order to understand the dominant logics influence on the development paths of microfoundations of dynamic capabilities, a conceptual model is built to illustrate the connections between the two theories.

The third chapter introduces the research methodology in detail. The chosen qualitative research method is described and its significance to this research is justified. Moreover, the data collection and the description of the informants, as well as data analysis and structure are presented in the chapter.

The fourth chapter displays a current stage analysis of the case company, and reviews the results by utilizing transcribed interview data. In the fifth chapter, the results are analyzed, and followingly, the findings are presented with help of the conceptual

model. Moreover, the findings are tied to the existing literature and research. Finally, in the sixth chapter, the conclusion of the findings of this research is drawn, and managerial implications are presented and discussed. Furthermore, possible future research objectives and the limitations of this study are introduced and discussed.

2 THEORETICAL BACKGROUND

Why change is often perceived as a challenge rather than an opportunity in organizations? Due to rapid changes in the operating environment, organizations need to be able to refresh their organizational processes and mindsets in order to match these processes and mindsets to external requirements. This adaptation process generally requires learning new ways to operate and think, and in some cases to even unlearn some old ways of operating and thinking. Even though organizations commonly identify change as a challenge, the change is often required in order for them to survive and retain their competitive advantage.

Even though organizations recognize the change in their operating environment, they are many times unable to execute the required actions for that change (Bettis & Prahalad, 1995). Acquisitions are one of the most visible strategic decisions, and one of the methods through which an organization is able to gain valuable tangible or intangible assets (Coyle, 2000, p. 14; Shimizu et al., 2004). According to Shrivastava (1986) and Krug and Nigh (1998), one of the most commonly appeared challenge in case of M&As is to manage and integrate the units adequately into one effectively functioning entity. In order to understand the logics and dynamics behind different ways of operating, behaving and thinking, we need to reveal the attributes that cause the different ways of doing and perceiving various organizational matters. In order to understand the strategic change in organizations, Bettis and Prahalad (1995), Felin and Foss (2005), and Teece (2009) underline the importance of understanding the underlying attributes and logics that support the explicit characteristics and performance of firms.

In this chapter, the theory of dominant logic and the dynamic capabilities framework are introduced. Both theories have been studied extensively in different industries in order to understand strategic change in complex organizations (see e.g. Bettis & Prahalad 1995; Côté, Langley & Pasquero, 1999; Felin & Foss, 2005; Nätti, 2005). This chapter focuses on providing a description of both of the phenomena, and it introduces the mechanisms through which the dominant logic and dynamic capabilities are built in organizations, and how they are related to and present in business integrations. The dominant logic's influence on the development paths of

microfoundations of dynamic capabilities is presented and discussed in form of a conceptual model in the end of the theoretical part. In order to gain a comprehensive understanding of the connections between the theories, it is reasonable to study the two theories first separately. After comprehending both of the abstract theories, it is easier to understand their relation to each other with help of the conceptual model. Finally, the relation and connections between the dominant logic and dynamic capabilities are illustrated with an example of entrepreneurial firms and incumbents.

2.1 Dominant logic

The theory of *dominant logic* focuses on examining strategic change in convoluted organizations among different industries, and it was first introduced by Prahalad and Bettis (1986). At the beginning, the theory was connected to a diversification-driven organizational change, rather than an environmental-driven organizational change (Prahalad & Bettis, 1986; Bettis & Prahalad, 1995). The dominant logic of a firm has been described as “a filter”, as “a level of strategic analysis”, as “the unlearning (forgetting) curve”, and as “an emergent property of organizations as complex adaptive systems” (Bettis & Prahalad, 1995, p. 5). Other researchers have even referred to “schemata” (Lau & Woodman, 1995), “interpretive schemes” (Hinings & Greenwood, 1988), and as “organization-specific schemas” (Harris, 1994).

Because the prevalent dominant logic works as an information filter in an organization, it filters the information and data that is perceived as relevant for the organizational decision-making and strategizing in that specific organization (Bettis & Prahalad, 1995). In other words, information, changes and requirements from the external environment are filtered through the organization to correspond its prevailing dominant logic, and further generated into certain organizational outcomes. The relevant information and data are subsequently intertwined with the organization’s strategy, systems, organizational values and culture, and later on, reinforced through feedback (Bettis & Prahalad, 1995; Nätti, 2005, p. 157).

From a practical perspective, the dominant logic of an organization may contribute to strategizing and decision-making in the organization by speeding and simplifying the decisions made by managers (Day & Nedungadi, 1994). Dominant logic has also been

related to a genetic component due to its characteristics as an invisible, but yet a far-reaching organizational phenomena that has a prevalent influence on organizational processes, behavior and mindsets. Furthermore, the existing dominant logic of an organization exposes it to a certain set of strategic problems that are perceived as relevant to the organization in question (Bettis & Prahalad, 1995).

2.1.1 Formation of dominant logic

Dominant logic can be seen as an inherent mental model of an organization which is developed through managers', often founders', values and their previous experiences, and shaped through feedback (Prahalad & Bettis, 1986; Bettis & Prahalad, 1995). Figure 1 illustrates how this collective mental model in organizations is formed at micro-level, and molded originally through individuals' assumptions and their theories of the surrounding world. Even though the dominant logic of an organization is not a generally noticeable phenomenon, it develops gradually as organizational members encounter new situations and learn how to handle these situations. (Côté, Langley & Pasquero, 1999.) According to Sinkula, Baker and Noordewier (1997) and Argyris (1999, p. 54), previous successes and failures of organizations reinforce the formation of their organizational mental models.

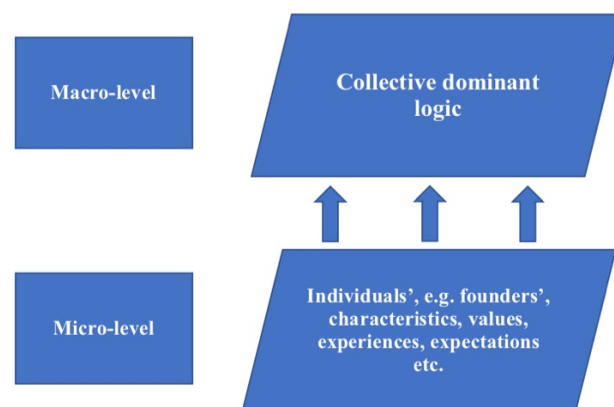


Figure 1. Micro-level attributes and dominant logic on macro-level

In a stable organizational setting and environment, the dominant logic assists the decision-making process of management by providing a set of rapid solutions to the challenges at hand. In case of a rapid external change, however, the existing dominant logic may prevent the organization to change. (Côté, Langley & Pasquero, 1999.) The study of Prahalad and Bettis (1986) indicates that managers in diversified firms need a different set of skills in comparison to the managers in single-business firms. This in turn confirms the fact that the previous experiences of managers determine their way of making strategic decisions in the future (Prahalad & Bettis, 1986).

Perceiving the concept of cognition and how it varies among managers may be helpful in understanding the reasons of why some managers are more effective to anticipate, interpret and adapt to changes from the environment. According to Helfat and Peteraf (2015, p. 836), the heterogeneity of dynamic cognitive capabilities of managers contain “both controlled and automatic mental processes”. The difference between controlled and automatic mental processes may stem from the prior experience in different contexts, where automatic mental processes are the result of a continuous practice in a certain domain. (Helfat & Peteraf, 2015.) If a firm aims to diversify and implement new organizational processes, it means that the managers need to address their current mental schemas, in order to modify them. Later, they are able to apply them appropriately in the new changed context. (Prahalad & Bettis, 1986).

According to Nätti (2005, p. 5) and Bettis and Prahalad (1995) the dominant logic may either facilitate or prevent knowledge transfer in organizations. Because of the partly tacit nature of organizational mindsets and knowledge, the dominant logic of an organization may become dysfunctional. This means that the organization is not able to re-evaluate its prevalent assumptions and their relevance in certain situations. (Nätti, 2005, p. 54.) Tacit knowledge refers to unembodied, implicit knowledge that is embedded in day-to-day business practices in a firm, yet it is not formally encoded or easy to distribute or imitate (Kogut & Zander, 1992; Demarest, 1997). Tacit knowledge in organizations has been seen as a valuable basis for functionable management that defines and transforms implicit knowledge into organizational routines, and furthermore into positive organizational outcomes (Argyris, 1999, p. 54).

2.1.2 Learning and unlearning

Côté et al. (1999) and Nätti (2005) point out that the dominant logic of organizations may explain why they stay resistant to the changes from their operating environment. Previous successes and failures of a firm often reinforce the formation of organizational mental models (Sinkula, Baker & Noordewier, 1997), which in turn plays an important role in organizational *learning* and *unlearning*. As the notion of dominant logic refers to filtering information in organizations, it may also have a remarkable implication to the development of the current mental model of an organization, and therefore, to the generation of new organizational and strategic knowledge. Unlearning e.g. an old organizational practice or mindset, may thus generate the strategic learning and development of the dominant logic and organizational practices of the firm. (Bettis & Prahalad, 1995; Nätti, 2005, p. 54–55.) Kogut and Zander (1992) remark that organizational learning occurs often in the areas that are close to the existing practices and knowledge of the organization.

According to Nätti (2005, p. 157), the dominant logic of an organization is strongly related with other organizational phenomena, such as culture and organizational structure and systems. Therefore, an organization's ability to change its processes according to external requirements, in other words, the *absorptive capacity* of the organization, is related to how “strong” versus “weak” the prevalent dominant logic is. A strong dominant logic may make it challenging for an organization to learn new mindsets or ways of behaving, and unlearn the old ones, whereas a weaker dominant logic enables the organization to more openly evaluate its current organizational mindsets, behavior and processes. (Nätti, 2005, p. 157.) Even though some parts of the dominant logic are more malleable, they are, however, generally resistant to change as long as there are more immovable elements in the dominant logic that confront these “weaker” elements (Côté et al., 1999). Although dominant logic may speed the decision making, automatic mental processes may also bias the decision making process (Helfat & Peteraf, 2015). In order to unlearn some parts of the dominant logic, Sinkula et. al. (1997) highlight the importance of proactively questioning the embedded organizational routines, assumptions and beliefs. To be open-minded about the change, valuable unlearning may take place (Sinkula et al., 1997; Nätti, 2005, p. 157).

Organizational intelligence refers to an organization's ability to learn and transform the new learned knowledge into collective organizational knowledge. In a stable environment, dominant logic in a way represents an optimum and fast solution for different challenges and situations. On the other hand, dominant logic may hinder assimilation of new explicit knowledge, and therefore, the current dominant logic may be ineffective. (Bettis & Prahalad, 1995.) Argyris (1999) remarks that organizations tend to perform defensive routines in case of potential organizational embarrassment or threat. Defensive routines refer to actions or policies that are thought to have a positive influence on the survival of the organization. (Argyris, 1999, p. 56.) Consequently, to have a positive impact on organizational learning and unlearning, significant changes need to be made in the organizational structure and systems since they are tightly coupled to the prevailing dominant logic and embody parts of it. In order for an organization to unlearn some of its prevalent practices or mindsets, the organization thus needs to change its current practices. (Bettis & Prahalad, 1995.)

2.1.3 Dominant logic and M&As

The process of business integration always contains some level of challenges. After the appropriate acquisition targets are being identified, a proper due diligence process is required to address issues in values, corporate culture and at social levels (Shimizu et al., 2004). One of the most commonly appeared problem takes place when an acquiring company prefers strictly its own way of operating over the acquired entities' organizational practices and systems (Krug & Nigh, 1998). In most cases, M&As include at least some level of integration of administrative, operating, management control, and strategic planning systems and procedures. According to Shrivastava, social integration, and especially the cultural integration of the merging units is the most critical type of business integration. (Shrivastava, 1986.) Zander and Zander (2010) use a metaphor "grey box", which addresses the notion that there are always some elements or logics in the acquired units that are implicit and therefore challenging to perceive explicitly from the acquirer's perspective. Thus, in addition to the assets that are explicitly perceivable, the acquirer also gains a set of implicit, even tacit, assets, knowledge and information during the integration.

The theory of dominant logic has also been used as a lens to explain the development of managerial behavior and acquisition strategy in organizations. According to Côté et.al (1999), the deeply rooted dominant logic of a firm can be used to clarify and describe the acquisition management behavior of the firm. In case of acquisitions, the acquirer has been stated to be willing to sustain its existing dominant logic, which in some cases may create some serious deviations between the acquirer and the acquired entities. (Côté et.al, 1999.) Accordingly, it is important to focus both the pre- and post-acquisition efforts, and enhance the knowledge of both of them in order to succeed in the prospective future acquisitions (Shimizu et al., 2004).

Dominant logic of an organization has been described to be even a knowledge transfer inhibitor due to some specific characteristics of the organization. These characteristics include e.g. fragmented organizational structure and tacit, and complex nature of organizational knowledge (Nätti, 2005, p. 5.) Zander and Zander (2010) argue that a heavy socialization process during business integration is a rational learning strategy that enables the acquirer to present its existing dominant logic to the acquired entity. Moreover, by opening or unpacking the organizational “grey box”, the acquirer is able to promote the social relationships, knowledge and culture in the organization. (Zander & Zander, 2010.) Even though the prevalent dominant logic of an acquirer may limit the integration process, and even have some toxic side effects (Bettis & Prahalad, 1995), Côté et.al (1999) contend that one way to enhance the social and cultural integration of merging firms is to promote the firm’s heterogeneity by operating under more than one dominant logic.

2.2 Dynamic capabilities

How firms contain their competitive edge in dynamic markets has been under the scope of research for decades (Teece et al., 1997; Rothaermel & Hess, 2007). Researchers have described organizational capabilities as a valuable origin of competitive advantage in organizations (e.g. Barney, 1991; Collis, 1994; Li & Liu, 2014). According to Teece (2007), *dynamic capabilities* of a firm refer to an ability to sense and shape organizational opportunities and threats, and to seize the exposed opportunities. Through dynamic capabilities the firm is also able to adapt to its competitive environment by modifying and reconfiguring its tangible and intangible

assets, organizational structures and processes (Teece et.al, 1997; Teece, 2007; Pelaez, Hoffman, Melo & Aquino, 2009), which becomes valuable especially in case of rapid change situations (Winter, 2003).

Organizational capabilities and competences, referred also as “combinative capabilities” (Kogut & Zander, 1992) and “architectural competence” (Henderson & Cockburn, 1994), are typically socially complex and multidimensional structures in an organization (Collis, 1994; Winter, 2003). Therefore, in order for firms to create new strategies that generate value for the firm, a set of physical, human, and organizational resources are reconfigured, and implemented into various organizational processes (Barney, 1991; Eisenhardt and Martin, 2000). According to Henderson and Cockburn (1994), firms can develop their dynamic capabilities, and further generate their organizational performance even by drawing from external sources of knowledge and information.

According to Winter (2000) and Teece (2014), organizational capabilities point to high-level routines that have a significant impact on management’s decision-making by offering a set of best practices and options through which the organization is able to generate positive organizational outcomes. Therefore, dynamic capabilities of firms are “the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die” (Eisenhardt & Martin, 2000, p. 1107). *Routine* refers to a representation of organizational knowledge (Kogut & Zander, 1992) that is partly tacit, highly patterned and learned behavior, and is repeated in an organizational setting (Winter, 2003). Integrative and detailed activities that represent dynamic capabilities of a firm often require long-term and costly commitments to specialized resources in that specific firm (Winter, 2003). Eisenhardt and Martin (2000, p. 1106) argue that in moderately dynamic markets, the dynamic capabilities of a firm “resemble the traditional conception of routines”, which means that the capabilities are “complicated, detailed, analytic processes that rely extensively on existing knowledge and linear execution to produce predictable outcomes”. In high-velocity markets, on the other hand, the dynamic capabilities of a firm are “simple, experiential, unstable processes that rely on quickly created new knowledge and iterative execution to produce adaptive, but unpredictable outcomes” (Eisenhardt and Martin, 2000, p. 1106).

However, some researchers (e.g. Collis, 1994; Winter, 2003) argue that it is challenging to address the capabilities that are proven to be the source of competitive advantage. Even though the theory of organizational capabilities deepens our understanding, and offers an explanation for the positioning and resources of firms, it doesn't provide an ultimate answer and solution for how firms create and sustain competitive advantages over time (Collis, 1994; Eisenhardt & Martin, 2000). Patterning of organizational activities can be seen as a core of the strategic substance of dynamic capabilities. In order to create and sustain such organizational patterning, the organization is generally required to make costly investments. (Winter, 2003.)

Eisenhardt and Martin (2000) remark that because there can be found some similarities, called 'best practice', across organizations, the real value in creating sustainable competitive advantage lies in how the resources of the organization are composed, not in the dynamic capabilities themselves. Winter (2003) makes a notion that organizations are even able to change without obtaining dynamic capabilities: they are able to adapt to environmental changes by using *ad hoc problem solving* instead of utilizing the dynamic capabilities of the firm. Ad hoc problem solving refers to an action that is not patterned or routine, rather it serves as a novel solution for unexpected environmental changes or other unpredictable situations. (Winter, 2003.)

2.2.1 Formation of dynamic capabilities

In the best case scenario, organizational capabilities and routines provide a source of sustainable competitive advantage for a firm (Barney, 1991; Collis, 1994; Teece et. al, 1997). Organizational processes are combinative in nature when different resources of a firm are synthesized, and the firm is able to draw new functions from those resources (Kogut & Zander, 1992; Henderson & Cockburn, 1994; Eisenhardt & Martin, 2000). Consequently, an organization with a set of dynamic capabilities is able to repeatedly refresh its competitive ability and advantage by innovating new products and services in contrary to its rivals. Due to the fact that some of an organization's dynamic capabilities stem from its tacit organizational knowledge, and some of them are dependent on the previous experiences and decisions made in the firm, these capabilities are typically hard to imitate. (Teece et.al, 1997.) Capabilities of a firm can

even suffer from erosion and substitution, and they can be replaced with higher-order capabilities (Collis, 1994).

In order to respond to the changes from the competitive environment, “asset orchestration” put into practice by managers is required (Teece, 2009, p. 48; Fallon-Byrne & Harney, 2017). Figure 2 illustrates the asset orchestration in which processes, resources and organizational learning are closely intertwined, and through which the firm’s dynamic capabilities are formed.

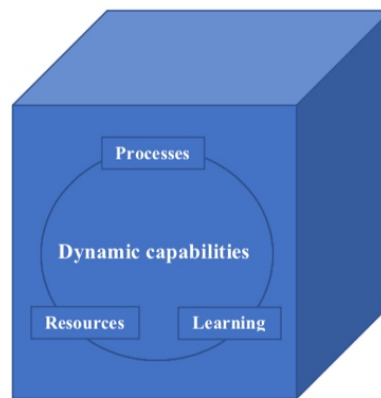


Figure 2. Dynamic capabilities of a firm

Ordinary capabilities, or zero-level capabilities, refer to those resources and competences that enable the short-term survival of the firm, whereas the extension and modification of current ordinary capabilities, and the creation of new ones refers to dynamic capabilities (Winter, 2003). To elaborate ordinary capabilities into higher-order capabilities and routines, an organization needs to make changes e.g. to its current production processes, organizational structures and routines, thus move away from its current equilibrium (Winter, 2003). Consequently, cross-functional relationships between different organizational processes, structures and routines are able to develop in a long-run (Haapanen et al., 2019).

Organizations’ absorptive capacity (Cohen and Levinthal, 1990) or combinative capability (Kogut and Zander, 1992), thus the organization’s ability to learn and assimilate new knowledge into its existing knowledge base, is dependent on the firm’s history and the previous experiences and decisions made in the firm. Therefore, the

organization's ability to learn relates directly to its innovative performance and the development of capabilities over time. (Cohen and Levinthal, 1990; Kogut & Zander, 1992.) One way to learn new organizational skills is to recombine the current capabilities of the firm (Kogut & Zander, 1992).

Eisenhardt and Martin (2000) remark that even though the formation of dynamic capabilities is unique in every firm, there can be found remarkable similarities in capabilities across firms. This means that there are some key routines and processes that are a solid part of multiple firms' effective dynamic capabilities. Couple of examples of such routines and processes are e.g. cross-functional teams in product and service development and pre- and post-acquisition efforts that facilitate organizational integration processes. (Eisenhardt & Martin, 2000.)

The relational structures and shared organizational schemes have an important impact on the acknowledgement and transfer of new organizational skills and capabilities (Zander & Kogut, 1995). However, a common challenge here is to understand how the firm-specific capabilities and the existing organizational knowledge are intertwined (Kogut & Zander, 1992). Dynamics between organizational members have far-reaching implications for the overall outcomes and competitive advantage of the organization (Felin & Foss, 2005), which in turn highlights the importance of investing on the already existing social relationships in the organization (Kogut & Zander, 1992). As intangible assets are salient for positive organizational outcomes, it is important that the governance and incentive structures enable and reinforce organizational learning and generation of new knowledge (Teece, 2009, p. 44).

To better understand the formation of dynamic capabilities, we need to understand the concepts of microfoundations and path dependencies. More of these phenomena in the next two sections.

2.2.2 Microfoundations

In order for an organization to maintain its competitive edge and create innovations, the different levels of the organization – individual-, firm-, and network-levels – need to be understood properly (Rothaermel & Hess, 2007). Prevailing collective routines

and capabilities in organizations stem originally from former or past group-level routines (Kogut & Zander, 1992). These collective routines and structures together with organizational knowledge can be tracked down to the individual-level in organizations (Argote et al., 2003; Felin & Foss, 2005). In order to understand interactional dynamics of various processes and routines, and to enhance knowledge transfer among individuals in an organization, researchers (e.g. Felin & Foss, 2005; Gavetti, 2005; Argote, McEvily & Reagans, 2003; Teece, 2007; Helfat & Peteraf, 2015; Haapanen et al., 2019) have suggested to study *microfoundations* of that specific organization. Microfoundations are small entities through which bigger organizational phenomena, e.g. collective capabilities and further dynamic capabilities are built from (Teece, 2007).

According to Felin and Foss (2005), it is crucial to first identify the nature, choices, abilities, preferences, and expectations of individual employees and managers before deeply comprehending the group-level structures and motivations in the organization. Thus, in order to understand extensively organizational processes, learning and capabilities, and therefore strategic change, we need to have an understanding of the microfoundations that take place in organizational settings (Felin & Foss, 2005; Fallon-Byrne & Harney, 2017). Dynamic capabilities are built from micro-level processes, structures and routines that arise originally from individuals in the organization, and therefore the role of individual managers in terms of organizational change has been emphasized (Teece, 2007; Helfat & Peteraf, 2015). By addressing managers' cognitive foundations, it is possible to expose the microfoundations of dynamic capabilities, and further, to contribute to the performance of the organization. Analysis of the cognitive underpinnings of the managers' dynamic capabilities reveals how they are able to anticipate, interpret and respond to the changes from the external environment. (Helfat & Peteraf, 2015.)

Microfoundations of dynamic capabilities are thus underlying and implicit micro-level elements that can be detected from the individual-level in organizations (Zander & Zander, 2010). Figure 3 illustrates the individual-level processes, resources and learning, through which the collective-level processes (e.g. routines), resources (e.g. organizational know-how and collective knowledge), and learning (organizational learning and adaptive ability), and finally organizational dynamic capabilities are

formed. Arrows between processes, resources and learning illustrate the dynamic nature of the capabilities on the individual- and collective level: each capability interacts with each other creating unique cross-functional microfoundations of dynamic capabilities in a firm.

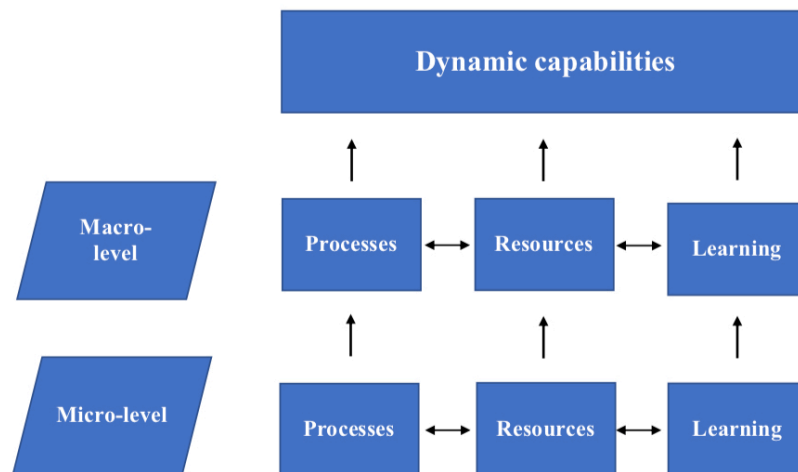


Figure 3. Microfoundations of dynamic capabilities

Due to their rather opaque nature, the identification and implementation of microfoundations is typically perceived as challenging (Teece, 2007). However, Eisenhardt and Martin (2000) have uncovered a number of different organizational routines and processes that serve as microfoundations for dynamic capabilities. Examples include product development routines, strategic decision making as well as the transfer and allocation of routines, processes and knowledge. (Eisenhardt & Martin, 2000.) Gavetti (2005) argues that in addition to routine-based logic, cognition and organizational hierarchy have a central role in capability development. Scanning, filtering, and interpreting information from various internal and external sources exposes the organization to learning and creative activity, which in turn may generate the formation of cross-functional capabilities (Teece, 2007)

2.2.3 Path dependencies

Due to tacit characteristics of dynamic capabilities, they are generally difficult to imitate by rivals (Teece et al., 1997). Therefore, the theory of dynamic capabilities

gives us one way to explain the formation of competitive advantage of firms. Researchers have agreed with the notion that previous organizational experiences and the existing organizational knowledge can either enable or hinder the assimilation and exploitation of new information. This in turn has an impact on the development of organizational capabilities as capability development is *path* or *history-dependent* (Cohen & Levinthal 1990; Teece et al., 1997.) Path dependencies of organizations refer to the tendency of what a firm has done in the past and what the firm is currently doing generally anticipates its future behavior and organizational outcomes (Kogut & Zander, 1992).

Organizational norms and practices, and further routines and dynamic capabilities, are generally influenced by historical specificities (Sugden, 1986). Felin and Foss (2005) argue that the prior decisions made by founders and individuals together with their personal characteristics have an influence on the microfoundations and heterogeneity of organizations. Thus, the future decisions and investments are most likely altered according to the previous decisions, investments and development paths taken by the organization, which makes them path dependent. Kogut and Zander (1992) agree with this notion, and remark that the current asset base and capabilities together with prevailing expectations about the future direct the investments made by the firm.

Besides the decisions and future investments, the formation of collective routines can be perceived as path dependent due to the fact at organizational collective routines often stem from the routines and capabilities executed already in the past (Kogut & Zander, 1992). Helfat and Peteraf (2015, p. 836) add that the cognitive capabilities of managers are most likely to be developed through path dependencies, which in turn may contribute to the development of both “potential and actual performance of mental activities”, and further to the organization’s ability to adapt in changing situations and requirements adopted from the external environment.

2.2.4 Dynamic capabilities in M&As

While facing a change situation, one of the main challenges organizations confront is the challenge to change the deeply rooted collective behavior and routines (Fallon-Byrne & Harney, 2017). In case of an acquisition, the acquirer do not typically know

exactly what type of knowledge and organizational capabilities has been acquired (Zander & Zander, 2010), therefore, the close examination of microfoundations of both parties is justified. By addressing the underlying microfoundations of different organizational processes, structures and routines of the acquirer and the acquired entity facilitates the success of the integration (Haapanen et al., 2019). Studies indicate that cognitive capabilities of managers can be enhanced through continual practice (Helfat & Peteraf, 2015), which implicates that in order for organization to learn from previous pitfalls, they need constant practice. This in turn comes back to an organization's ability to learn. Shimizu et al. (2004) point out that due to the dynamic nature of M&As, every pre- and post-acquisition process in M&As contains learning.

Effective dynamic capabilities across firms include pre- and post-acquisition processes and efforts (Eisenhardt & Martin, 2000). Addressing sociocultural factors (e.g. both organizational and national cultural fit and preferred management style) already in the pre-acquisition phase, has been proved to promote the business integration process (Stahl, Angwin, Very, Gomes, Weber, Tarba, et al., 2013). Especially the post-acquisition integration stage has been acknowledged to be a critical part of the success of M&As (Angwin & Meadows, 2015; Junni, Sarala, Tarba & Weber, 2015) due to both operational and sociocultural integration (Bresman, Birkinshaw & Nobel, 1999; Vaara, Sarala, Stahl & Björkman, 2012). Commonalities in norms and organizational values among the acquirer and the acquired entity partly determine the success of the integration (Shimizu et al., 2004).

In case of M&As, information asymmetries between an acquirer and the acquired entities may have a negative impact on the development of mutual cross-functional capabilities and knowledge. Therefore, it is salient especially for the acquirer to make an effort in the post-acquisition integration stage and try to understand the individual-level and interactional dynamics of the acquired unit. (Zander & Zander, 2010.) In order to succeed in the integration, a proper due diligence process is critical. The integration of different units is a challenge, thus, the acquirer needs to address the possible contradicting matters, and plan the actions required in terms of the implementation of the acquisition. (Shimizu et al., 2004)

Zander and Zander (2010) note that it is challenging to pass on every routine and organizing principle of the firm that is participating in business integration. Additionally, the acquirer must note that individuals in the acquired entity are not entirely malleable and homogeneous (Felin & Foss, 2005), rather they are a part of a complex social network characterized by distinctive and dynamic ways of doing and perceiving various organizational matters. According to Bresman et al. (1999), Zander and Zander (2010) and Stahl et al. (2013), two-way communication, socialization and interaction efforts facilitate the acquisition process, which in turn results in organizational learning, and further, the development of capabilities. According to Angwin and Meadows (2015) and Haapanen et al. (2019), the acquirer and the acquired entities are able to obtain and align their processes, structures and routines into one entity in a long-run, as far as the required commitments toward the integration have been carried out.

Post-acquisition integration is crucial in terms of the success of M&As (Shimizu et al., 2004). According to Zander and Zander (2010), acquiring firms might force the organizational procedures and practices that are perceived as superior and familiar to the acquired entities, which often evokes resistance and legitimacy problems in those entities. Therefore, it is important to focus on the post-acquisition stage and creation of a coherent social community among the organizational members (Bresman et al., 1999; Stahl et al., 2013). Supportiveness plays an important role during the whole integration process (Krug & Nigh, 2001). In the best case, complementary capabilities (Zander & Zander, 2010) and resources from the acquirer and the acquired companies result in new valuable combinations of dynamic capabilities (Junni et al., 2015).

2.3 Conceptual model

Both theories, the theory of dominant logic and the dynamic capabilities framework, stem from implicit characteristics and functions that take place in organizations. Even though they are mainly invisible in their nature, they play a critical role in building and developing organizational capabilities, competitiveness and survival. After reviewing the theory of dominant logic and the dynamic capabilities framework, it is possible to draw a conceptual model of these two theories due to the similarities and overlapping themes. By reviewing the conceptual model, the attempt is to expose the implicit,

rather important phenomena that form the base for an organization's dynamic capabilities, and further, the organization's ability to adapt to its competitive environment.

Figure 4 illustrates the structure of the conceptual model of dominant logic and dynamic capabilities. The base of the model consists of individual-level attributes such as microfoundations in processes, resources and learning, that take place in organizations. These dynamic micro-level capabilities are affected and molded through individual organizational members' personal characteristics, their values, experiences and expectations. Organizational collective phenomena and dynamic capabilities stem originally from the individual-level attributes (Felin & Foss, 2005.), and they are further adopted and adjusted according to the prevailing dominant logic. The dynamic capabilities of an organization are thus in a way "filtered" to fit to the existing dominant logic of the firm. This in turn goes hand in hand with the notion of path dependencies of dynamic capabilities (Teece et al., 1997). As a conclusion, I suggest that the dominant logic of a firm may explain the development paths of organizational capabilities, and therefore, it can contribute to the formation of a unique, firm-specific set of dynamic capabilities.

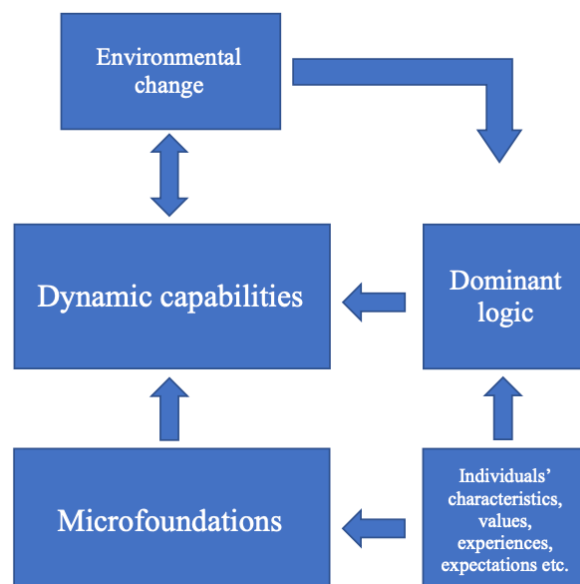


Figure 4. Conceptual model of dominant logic and microfoundations of dynamic capabilities

The base of the conceptual model consists of micro-level attributes: microfoundations at individual-level that are affected by individual organizational member's personal characteristics, their values, experiences, and expectations. As previously noted, dynamic capabilities of organizations stem from micro-level processes, routines and structures that arise originally from individuals in those organizations (Felin & Foss, 2005; Teece, 2007; Zander & Zander, 2010; Fallon-Byrne & Harney, 2017). By addressing the motives, abilities, expectations, and nature of individual employees and managers, it is easier to understand the relationships and dynamics in microfoundations they create at the micro-level in organizations (Felin & Foss, 2005).

Individuals' capabilities and extant knowledge determine the way they recognize opportunities and threats (Teece, 2009, p.11). Because the collective dominant logic in organizations derives initially from individuals', often founders', mental schemas, that is their values, previous experiences, and future expectations (Bettis & Prahalad, 1995), it is reasonable to examine how the individuals in the organization perceive different organizational matters, and how they interpret and adapt those matters in case of a change situation (Helfat & Peteraf, 2015). In other words, previous experiences, successes and failures generally have an impact on individuals' mental models (Sinkula et al., 1997; Argyris, 1999, p. 54), and furthermore, how they perform and carry out different organizational processes and outcomes (Helfat & Peteraf, 2015) in the future.

After addressing the micro-level attributes that direct the formation of larger organizational phenomena, it is possible to understand the nature and dynamics between dominant logic and organizational dynamic capabilities. As discussed earlier, the firm-specific dynamic capabilities are built through microfoundations, that are collective processes, structures, and routines that arise from individuals in the organization (Teece, 2009; Helfat & Peteraf, 2015). Dynamic capabilities in the conceptual model are therefore molded through the shared dominant logic of the firm. Henderson and Cockburn (1994) assert that organizational "information filters" are a part of an organization's architectural competence, and therefore a tool to solve various problems confronted by the organization. As the dominant logic filters the information perceived as relevant for the organization (Bettis & Prahalad, 1995), it is reasonable to assume that the dominant logic of an organization also has an impact on the

formation of microfoundations of dynamic capabilities in organizations over time. In other words, the prevailing dominant logic directs the dynamics between processes, resources and learning in a way, that is perceived as relevant and essential for the organization.

As a firm encounters new situations and learns how to operate in these situations, the dominant logic of a firm can develop gradually (Bettis & Prahalad, 1995; Côté, Langley & Pasquero, 1999; Nätti, 2005). The possible new organizational learning and development of the current dominant logic is illustrated with an arrow from external environment towards dominant logic in Figure 4. The relationship between dominant logic, dynamic capabilities and environmental change can even be seen as a feedback loop: the relevant information is continuously intertwined with the organization's strategy, systems, values and culture, and later on, reinforced through feedback (Bettis & Prahalad, 1995; Nätti, 2005: 157). The two-sided arrow between dynamic capabilities and environmental change in Figure 4 reflects the ability of firms with strong dynamic capabilities to proactively anticipate the change and even shape their operating environment (Teece, 2007; 2009, p. 3–4).

As the current dominant logic guides the way an organization handles new information, it may also have an influence on the organization's absorptive capacity and how effectively it generates new organizational and strategic knowledge (Bettis & Prahalad, 1995; Nätti, 2005, p. 54). Therefore, the organization's ability to learn relates directly to its innovative performance and the development of capabilities over time (Cohen & Levinthal, 1990; Kogut & Zander, 1992), which implies that the dominant logic directs the dynamics and cross-functionalities between microfoundations, that is organizational processes (e.g. routines), resources (both tangible and intangible), and learning, and furthermore, the formation of firm-specific dynamic capabilities. The next section presents the dominant logic's influence on the development paths of organizational capabilities in an illustrative way in case of highly entrepreneurial versus incumbent firms.

2.3.1 An example: entrepreneurial versus incumbent firms

One way to illustrate the dynamics between dominant logic and dynamic capabilities of firms is to compare the characteristics of highly entrepreneurial firms and incumbents. In stable operating environment a dominant logic of a firm provides fast solutions for the management (Bettis & Prahalad, 1995). However, in a turbulent environment in which an organization encounters rapid changes, the prevailing dominant logic of an organization may prevent the needed organizational change to happen (Côté et al., 1999). Therefore, the organization is unable to reconfigure its existing set of capabilities according to the change.

As dominant logic filters the information relevant to the organization in question (Bettis & Prahalad, 1995), incumbent organizations are apt to perceive new challenges and problems in a way that is consistent with the organization's existing knowledge and resources (Teece, 2009, p. 37). Due to path dependencies, organizations' past and current practices most likely direct their future practices as well (Kogut & Zander, 1992). In case of incumbent firms, the existing asset base tends to direct organizational investments in a way that upcoming innovations correspond the resources the organization already contains (Teece, 2009, p. 37). Because the dominant logic of a firm is solidly embodied to its organizational structures and systems, consequential modifications need to be made in order for the firm to change (Bettis & Prahalad, 1995). In order for an incumbent firm to compete with the more agile rivals, the firm must be able to critically evaluate its existing capabilities, prevalent assumptions, and their relevance in different situations (Nätti, 2005, p. 54; Teece, 2007).

According to Bettis and Prahalad (1995), experienced incumbents are generally defeated by new competitors due to the inability to change their prevailing organizational systems and structure. Teece (2007; 2009, p. 3–4) remarks that highly innovative organizations typically possess strong dynamic capabilities, and therefore, they are able to adapt to, and even shape the operating environment through their innovations. The level of innovativeness, on the other hand, can be dependent on how “weak” versus “strong” the prevalent dominant logic of the firm is. Nätti (2005, p. 157) states that firms with a “weak” dominant logic are more able to draw new information from the external environment, and change it into new organizational

knowledge, whereas a “strong” dominant logic may prohibit the transfer and assimilation of new knowledge.

To sum up, the theory of dominant logic may provide an answer for why some organizations are resistant to change (Côté et al., 1999; Nätti, 2005), and accordingly, not able to reconfigure their existing capabilities. The weaker the prevailing dominant logic of a firm, the higher the absorptive capacity of that specific firm, and followingly, the stronger the contained dynamic capabilities. On the other hand, the stronger the dominant logic, the lower the level of absorptive capability in the organization, and therefore, the more challenging it is for the organization to reconfigure its current assets.

3 RESEARCH METHODOLOGY

The main objective of this qualitative research is to gain insight of different organizational schemas and behaviors that emerge in organizations while confronting various M&A processes. In order to understand dominant logic's influence on the development paths of a certain set of organizational capabilities, and further the emerged conflict points and their management between the acquirer and the acquired entities during pre- and post-integrations, the qualitative abductive research method was chosen. To address the attributes and elements behind different dominant logics and microfoundations of dynamic capabilities among the acquiring company and the acquired units, interviews were conducted to gain an inclusive amount of insightful data.

In this chapter, the research methodology and its validity and reliability in relation to the research objectives of this study are described and discussed. Furthermore, the data collection process including the description of the interviewees is introduced. Followingly, the analysis of the data and the data structure are presented and justified carefully in detail.

3.1 Qualitative research method

In order to gain the best possible understanding of often implicit organizational phenomena, in this case dominant logic and microfoundations of dynamic capabilities in the case organizations, the qualitative research method was selected. Due to the extensive and flexible nature of interviews (Cassell, 2009, p. 500; King, 2004, p. 21) they were chosen to collect insightful data that exposes and describes underlying and even abstract elements of organizational mental schemas, and further, the development paths of organizational capabilities. According to Gummesson (2000, p. 35), interviews offer in most cases a large amount of empiric data that enriches the understanding of different processes in organizations. Thus, to understand the dominant logic and dynamic capabilities in case of M&As, interviews were a reasonable method to collect information about the participants' experiences and perspectives on various organizational matters.

In this study, qualitative research was chosen to gain in-depth understanding of participants' perspectives on various organizational phenomena that took place both before and after acquisitions. Data from the interviews reveals the characteristics of the dominant logic and microfoundations of dynamic capabilities of both the acquirer and the acquired entities, which in turn makes it possible to study similarities and contradictions between the parties. According to Myers (2013, p. 9), qualitative research method offers a means to study novel situations that are not familiar to the research community. In this case, two fundamental theories among management research were used for the first time in the same context, and their relation was studied in real life organizations, which also supports the chosen research method.

To capture the holistic picture of both implicit and explicit organizational matters, it is reasonable to have both the theoretical and empirical part in the research while conducting a study. Even though this study is mainly deductive, abductive reasoning has been used along the research. Through abductive reasoning researchers are able to handle rather vague phenomena both inductively and deductively (Eriksson & Lindström, 1997), and therefore, they are able to conduct to the existing research in a most efficient way. Due to the first attempt to form a conceptual model of the theory of dominant logic and the dynamic capabilities framework, it was reasonable to utilize the abductive method in this research. Thus, in order to contribute in the best way to the existing literature and research, it was preferable to work closely with both the theoretical framework and the empirical research data.

3.2 Data collection and description of the informants

In this research, I study M&A processes of a Finnish healthcare company that operates domestically in physiotherapy sector. This can be seen as an exceptional case because of the timeframe in which the acquisitions took place: during the past five years over 80 integrations were conducted in a relatively small Finnish market. Originally, the case company was selected due to its high visibility and coverage over the market. Therefore, as qualitative interviews took place in 2019 they resulted in an inclusive data from both the acquirer and acquired entities' behalf. Even though dominant logic is a firm-specific phenomenon, I consider the acquired units as one entity due to their significant similarities in central values and processes, and in order to simplify the

result setting in this study. For now on, the acquiring company is referred as ACQUIRER, and the acquired entities are called shortly as ENTITIES.

To answer the research questions, altogether 8 semi-structured interviews were conducted to collect qualitative research data. Interviews offer a great means to collect information e.g. about interviewees' roles, experiences and perceptions of different situations (Myers, 2013, p. 119) that take place in organizations. The language of the interviews is Finnish and they were conducted in face-to-face meetings. The interviews were recorded by using a phone, and the agreement of using the gathered data was gained. The description of the interviews, the current position of the interviewees and the length of the interviews are introduced in Table 1. The topic of the interviews was disclosed beforehand in order for the respondents to get familiar with the subject. In many cases, the respondents had not paid too much attention to the preparation because they felt so familiar with the topic because they had personal experiences about the M&A processes.

Table 1. Description of the interviews

Interviewee	Position	Interview Length
Executive 1	Founder, integrations	1.33
Executive 2	Founder, regional management	1.59
Executive 3	Financial director	1.54
Key person 1	Unit manager	1.41
Key person 2	Unit manager	1.36
Key person 3	Unit manager	1.57
Key person 4	Unit manager	1.49
Key person 5	Development manager	2.32

Interviews are held between the year 2019 and 2020, and they are planned and conducted mainly by two professors of the Oulu Business School. I participated in one interview in the end of year 2019. The company and the respondents have gained

anonymity in order for them to provide as insightful data as possible, and to make them feel comfortable to reveal firm-specific information and their honest opinions about e.g. integration processes. Interviews last between 1,5 and 2,5 hours each, and they are structured by using phenomenological approach which helps the researcher to openly examine the research material without sticking too much of his or her presuppositions about the subject (King, 2004, p. 12–13). The interviews start with introductive warm-up questions and discussion about the interviewees and their position in the previous and current entity. Interviews continued with topics such as the nature of the business operations, management, organizational processes, culture, and monitoring. There was also discussion about governance and organizational structures, communication, customer segmentation, etc. The interview structure was used to map the reality (Ghauri & Grønhaug, 2005, p. 88) among the interviewees, and it can be found as Appendix in the end of this research.

Three of the respondents work at the executive level in ACQUIRER. Two of them are founder members (Executive 1 and Executive 2), who have a long career among various sectors. Both of them have gained experience and worked e.g. as high school rectors and CEOs in various companies. Neither of the founders has a degree in physiotherapy. The third executive (Executive 3) has entered the company this year, and has a long experience among financial matters in various healthcare sector companies, both public and private. Five of the respondents work as key persons in the acquired units (referred as ENTITIES). All five used to be owner-managers and they have sold their businesses to ACQUIRER, and all of them have also stayed in the company's service. Today, four of the key persons work as unit managers (Key persons 1, 2, 3, and 4), and one has moved to a higher position as development manager (Key person 5). All the acquired entities are located in different cities around the country, whereas the executive team works in the same city in southern part of Finland.

3.3 Data analysis

Due to the abductive nature of this study, both deductive and inductive approaches were used along the research process. Firstly, I studied the theories of dominant logic and dynamic capabilities of organizations extensively by utilizing the existing literature and research. By examining closely both of the theories, I was even able to

compare the theories which finally resulted in a conceptual model. This part of the research can be described as deductive.

Secondly, the transcription process took place. Eight transcribed interviews resulted in altogether 225 pages of data which was transferred to a qualitative data analysis tool, NVivo, for further data analysis and result classification. I studied the transcription of each interview carefully, and started to inductively label commonly appeared themes according to the theoretical part of this research. In order to ease the data analysis, the emerged data was classified by using Gioia method. First, I looked after and identified a number of 1st order concepts that were named inductively (Gioia, 2013). These concepts presented e.g. personal values, characters, experiences and expectations of individuals in organization. Furthermore, individual-level processes, resources and learning capabilities were appointed in 1st order concepts. After naming 1st order concepts, I grouped the emerged concepts into 2nd order themes, that describe larger organizational phenomena, and further into aggregate dimensions. (Gioia, 2013.) The emerged aggregate dimensions describe firm-specific dominant logics and dynamic capabilities, that are extensive phenomena which take place in organizations in question. I followed this same process in case of both ACQUIRER and ENTITIES.

Thematic analysis, that characterizes both implicit and explicit phenomena within the data (Guest, MacQueen & Namey, 2014, p. 9), is supported by adding quotes that are selected from the research data. Quotes are carefully translated from Finnish to English, and they are used to give an insightful presentation of the results in this study. They are also used to support the reliability of the results. Primary data collected through the interviews encompasses the features of dominant logic and microfoundations of dynamic capabilities of both the acquirer and the acquired entities. Secondary data is utilized to describe e.g. the reasons behind the formation of a certain dominant logic and the certain development paths of microfoundations in the organizations. Finally, the data was analyzed in terms of contradictions the current dominant logics of different parties result in, and how these contradictions are being managed by ACQUIRER.

3.4 Data structure

After a careful transcription process, the interview data was transferred to the qualitative data analysis tool, NVivo, for further data analysis and result classification. Basically, I looked after commonly appeared features and themes that describe the dominant logic and dynamic capabilities of the entities in question. In other words, I mapped between empirical observations raised from the research data and the theoretical concepts (Ghauri & Grønhaug, 2005, p. 89) of dominant logic and dynamic capabilities.

The emerged data was classified by using Gioia method: First, I looked after and identified a number of 1st order themes that were named inductively. After this, I grouped the emerged concepts into 2nd order themes, and further into aggregate dimensions. (Gioia, 2013.) The emerged aggregate dimensions describe firm-specific dominant logics and dynamic capabilities. I followed this process in case of both ACQUIRER and ENTITIES to gain an in-depth understanding of the differences between them, and to contribute to the findings of this study in a best possible way, and in order to comprehend the emerged conflict points in M&A processes. The development paths of firm-specific dominant logics and dynamic capabilities are introduced in Tables 2 and 3.

1st order concepts	2nd order themes	Aggregate dimensions
Transparency	Values	Dominant logic of ACQUIRER
Sincerity		
Respect for other people		
Well-being of people		
Ethics		
People-oriented	Personality	
Speedy		
Goal-oriented		
Hard-working		
Smart		
Learning from people		
Calm		
Curious		

Hazard		
Goal-orientation	Expectations	
Innovativeness		
Flexibility in business		
Less bureaucracy		
Change-orientation		
Learning by doing		
Try outs	Experiences	
Problem-solving		
Managing people		
Different fields		
Giving feedback		
Managing people		
Problem-solving	Processes	Dynamic capabilities of ACQUIRER
Decision-making		
Acquiring		
Sparring		
Marketing		
Monitoring		
Reporting		
Strong finance		
Digital know how		
Infra		
Division of labor		
High level of experience		
Networks		
Know-how		
Communication skills		
Learning by doing	Learning	
Learning from people		
Auditing		
Feedback		
Training		

Table 2. Data structure of ACQUIRER. Adopted from Gioia et al. (2013)

1st order concepts	2nd order themes	Aggregate dimensions
Value-orientation	Values	Dominant logic of ENTITIES
Respect for people		
Human well-being		
Traditional		
To do meaningful work		
Modest	Personality	
Shy		
Not business-oriented		
Not money-oriented		
Face-to-face interaction	Expectations	
Traditional		
High quality		
High level of know-how		
Pride over profession		
Getting better		
Stability		
Long careers		
Knowledge sharing		
Stability		
Scientific knowledge		
Therapy work	Processes	Dynamic capabilities of ENTITIES
Customer relations		
Decision-making		
Customer service		
Some level of monitoring		
High level of know-how	Resources	
High quality treatment		
A lot of experience		
Genuine interest		
Long careers		
Passion for development	Learning	
Lifelong learning		
Learning by doing		
Knowledge sharing		
Internal training		
Self-paid training		

Table 3. Data structure of ENTITIES. Adopted from Gioia et al. (2013)

4 RESULTS

In order to understand strategic change in organizations, it is useful to examine collective mental schemas in the organizations in question. As different dominant logics are formed through different value bases and experiences in organizations (Bettis & Prahalad, 1995), it is important to familiarize oneself with the features of both parties in case of M&As to reveal and address similarities and disparities of the acquirer and the acquired entities. The results, and further the findings in the fifth chapter, reflect the data structures which were presented in Table 2 and 3 in the methodology chapter. By revealing often implicit attributes and features behind distinctive dominant logics, it is possible to understand the development paths of microfoundations of dynamic capabilities. Furthermore, the prospective conflict points in the business integrations are able to be exposed and managed. For now on, the acquiring company is referred as ACQUIRER, and the acquired entities are called shortly as ENTITIES.

In this chapter, the current stage analysis of ACQUIRER and ENTITIES is presented and described. The acquired units are considered as one entity due to their significant similarities in e.g. central values and processes, and in order to simplify the result setting. Results implicate and present both parties' common features of their dominant logics and microfoundations of dynamic capabilities.

4.1 Current stage analysis

The healthcare sector in Finland has been under turbulence for several years, and it will face some big changes in near future as well. Health and social services reform (the Sote reform) has been under preparation for years which has created a varied level of uncertainty among both public and private healthcare providers.

“I continued as always to 2015, when I started to think that should we continue like this due to the turbulence and rapid changes among the healthcare sector, or not. It was a somewhat turning point, you should have had a quite a big boost, just like [ACQUIRER] decided to do.” (Key person 2)

The goal of the Sote reform is to give clients more equal access to both public and private healthcare services and the freedom of choice to choose their preferred service provider. The reform is intended to be started from the beginning of 2021. (The Social Insurance Institution of Finland, 2019.) Due to the high level of uncertainty and lack of resources many of the key persons thought it would be reasonable to sell their businesses in order to secure their survival in the turbulent healthcare sector.

”Public sector started to train their people strongly at this point because they prepared for the Sote. [...] As an independent unit we couldn’t have time to grow big enough. As current-sized that we were, we wouldn’t survived against the big ones. Now when we are under the [same] flag, the situation is totally different.” (Key person 5)

The case firm in this study is a Finnish healthcare company that provides physiotherapy services nationally in Finland. The company was founded in 2015, and during the past five years the company has acquired over 80 smaller service providers in the same sector. Today, ACQUIRER covers roughly 10% of the physiotherapy market in Finland. ACQUIRER has been described as a classic learning organization which learns and develops by doing and being curious. Furthermore, as the stereotypical perception of big healthcare companies is usually very clinical and unmalleable, ACQUIRER has been described as the opposite.

“This is a classic learning organization, just like a university. Also professional organization, learning organization. We’ll develop only if we learn.” (Executive 2)

“The company has broken the clinical impression of big healthcare organizations, in a way that also in a big company... they can understand the value of people.” (Key person 5)

Organizational structure of ACQUIRER includes corporate management which contains a board of directors and an executive council of 10 persons, four regional executives, 35 unit managers, and around 500 physiotherapists. Physiotherapists are

either regular employees or practitioners. ACQUIRER has significant resources that enable the company to have a large national and geographical presence, and centralized services e.g. in IT, marketing and accounting. Moreover, they have been able to construct their own in-house training system, called here the Academy.

“It [ACQUIRER] has the volume power which is acquisitions, centralization of services which includes service experience, to which our capabilities are aligned with, [and] the Academy. There is digitalization, among other things. There is a supreme digital presence, to which digital development, reporting and analytics are related to.” (Executive 1)

4.2 Dominant logic

In this section, dominant logics of ACQUIRER and ENTITIES are presented and described. As dominant logic is built through individuals’ personalities, their values, expectations and previous experiences (Bettis & Prahalad, 1995), both dominant logics present typical features of the founder members and their employees.

4.2.1 Dominant logic of ACQUIRER

The founders have a great experience on various sectors and positions, which has enriched their personal ability to absorb and utilize new knowledge from their environment. The founders, however, have no experience or a degree in physiotherapy work itself. Both of them are smart and innovative in nature, and they are eager to learn and deepen their understanding on prevailing phenomena both inside and outside the organization. The founders were described as “the powerful duo” due to their incredible ability to fulfill each other’s personalities and capabilities. The other founder gets excited very easily by innovative solutions that are yet at development stage, whereas the other one is more calm and relates more analytically towards new and even radical solutions.

“We’ve been quite excited and smart enough to understand and learn the legal aspects, and... [...] I learn considerably from other

people. That's how all started. By being curious and by doing. It is typical for both of us [founders].” (Executive 1)

“[A capital investor] thinks that [ACQUIRER's] strength is particularly the powerful duo. And he [the capital investor] said that in most cases in bigger companies, [...] they rarely count on just one person.” (Executive 2)

”Me, on the other hand, I have a calming influence on people, I am surely more analytical and able to calm down, whereas [the other founder] is more all over the place, and people get a bit overwhelmed by that.” (Executive 2)

Open discussion and full transparency of information is highly valued among the founder members. For instance, unit managers have a full access to financial reports of the other units. The founders evoked trust among the key persons due to their ability to discuss openly their personal mistakes and flaws of the whole company. None of the five key persons thought that the founders were dishonest at any level. Founders have even encouraged managers to make decisions independently, which implicates their respect and trust on the managers' capabilities.

“I believe in full transparency of information. Managers see all the data, everything.” (Executive 1)

“Sincerity. Of course he is selling their story, but he is also very open. He told in an understandable way that some things are totally fucked up, not just praising, rather that some things are incomplete from their side as well.” (Key person 3)

”The division of work needs to be very clear, as well as the respect for decision-making. He can make decisions that in my opinion are shitty decisions, but he does them in his own way. You must respect that.” (Executive 2)

Furthermore, the founders show high respect for other people and appreciate their ordinary ways of doing things. ACQUIRER was even flexible and willing to make

contracts in a way that enhanced the adjustment period of ENTITIES during the integration. ENTITIES were e.g. allowed to keep their current benefits and incentive systems. This gesture together with pre and post-integration interviews helped the units to adjust the challenging integration phase.

"I hope they let all the flowers flourish like they let us to do. [...] It is a great gesture from [the founders] to respect these old traditions." (Key person 3)

"We've had an overnight-principle, which means that nothing changes. We've wanted to respect them, even though some of the contracts have been crazy as hell, [...], we've wanted to respect them, and that has appeased them a lot." (Executive 2)

"At the moment, I'm doing so called "start pulse"-interviews which is a half an hour interview for new personnel, and it focuses on their feelings [about the acquisition]." (Key person 5)

Due to founders' comprehensive experience in various sectors and operations as decision-making organs, the founders themselves are used to make even radical decisions. The other founder, for instance, had to lay off some employees at some stage of his working career. Due to personal preferences and to ensure the flexible nature of the company, the founders wanted to avoid too fast management structures by giving the unit managers relatively free hands in decision-making especially in the beginning. After some critique about the loose management structures occurred, ACQUIRER created a renewed system that today includes 4 regional managers and 35 unit managers with designated tasks.

"Many times I have asked people whether they wanted to work in a big group corporation or in a flexible family company. My answer is that I couldn't see myself in a big corporation, I just couldn't." (Executive 2)

“We’ve got somewhat strong critics about the loose management structures in the beginning. Now we have a good and praised management system.” (Executive 1)

“[...] whether we have urgent instructions for making a travel invoice, or not. As simple as that. As long as we get along without it, let’s don’t have it. [...] I claim that it is a trademark for a flexible firm to not have written instructions for how to make a travel invoice.” (Executive 2)

Change element is strongly present as ACQUIRER has entered new acquisitions on a regular basis. Change is considered as a natural part of the company, and as a valuable tool for learning and to be molded to respond the requirements and needs from the operating environment. The company is described as a classic learning organization which learns by doing and by pursuing bravely its organizational objectives. As ACQUIRER and its employees encounter new challenges, it is important that they become heard and assisted.

“Our belief is that we go bravely towards something new even though we don’t know exactly what it is. We do mistakes. We believe that together we are more, and that is the essence of our story.” (Executive 1)

“We have some challenges on the table, I’ll assist, let’s figure them out together. That’s my job.” (Executive 2)

High level of innovativeness and excitement, on the other hand, may appear as very hazard and overwhelming from the subordinates’ perspective.

“He [the other founder] brings such a hype from the IT-world about how you shouldn’t, for God’s sake, plan products thoroughly before launching, rather put them out there as unfinished, and after that, develop them as final products. And let’s see if it takes off or not.” (Executive 2)

"In staff pulse survey... I wrote it down... the feedback was nearly word for word that 'who the fucking captain Haddock there is steering this boat, the course is changing all the time'." (Executive 1)

Both founders can be seen as hardworking, goal-oriented and effective. They are persistent to solve various organizational challenges and problems in order to achieve good organizational performance.

"[The other founder] is surely, he is such an untiring workhorse. He calls [constantly], acquisitions require harsh work." (Executive 2)

"As a former professional athlete and slightly goal-oriented, I would have wanted that our therapists have their own numbers. To have the company's Top 10 and the company average. But our unit managers said that no, we don't put them. Okay then, but I'd be interested." (Executive 1)

Even though ACQUIRER and the founders themselves are rather goal- and performance-oriented, it does not make them money-driven only. Rather, they are seen as persons with high level of empathy and personal ethics. Both founders value strongly customers' well-being, in-house training, and quality management. Therefore, a good therapy relationship that occurs between the physiotherapist and his or her clients is the guideline that drives and directs all the decisions made by the corporative management.

"I give both leaders points of calling and asking if we have something on our mind. Oh well, [the other founder] wants to make deals badly, it is clear to me, and related to that he is very speedy. I like [the second founder] because he listens and gives feedback. We've never had any conflicts." (Key person 1)

"We have acknowledged that we value highly ethics, we value customers' well-being, we value that people are being trained, we value good management of people." (Executive 1)

“Actually, the core of our strategy is a good therapy relationship. It is a central value base to which all our decisions are aligned with.”
(Executive 3)

4.2.2 Dominant logic of ENTITIES

One of the most commonly appeared values among ENTITIES is value-orientation. People who orient themselves towards physiotherapy services are in most cases rather modest in their personality, and they want to do meaningful work that makes their clients to feel better. High respect and value is put on the work itself, not on the monetary rewards it generates.

“Our people do this work, they are very value-oriented. I am not saying that value-orientation is an opposite for money-orientation. But in most cases they are not money-oriented people. [...] To do work that has a meaning is very important for them.” (Executive 1)

“Even today, money doesn’t make me do things, rather it is the things I like to do. [...] It is my kind of an approach to things that I put people, not money, upfront. [...] After the person is happy, then I consider whether the monetary objectives are being met.” (Key person 3)

“In a way, we are average Joes. [...] People who orient themselves towards this profession, they are not business-oriented because it is not the starting point for applying for this profession.” (Key person 5)

In order to perform quality treatment for their customers, physiotherapists are eager to get better in their work by constantly developing their skills and knowledge, even if they would have to pay for complementary training by themselves. Therefore, the therapists are often willing to pay for the complementary training to serve their customers in a best possible way.

“They might put 5000 euros in a year from their own wallets for training. These people. Name some other actor, I’m sure you cannot find another. Amazing people. They have such a strong passion for learning, but also the work itself requires learning, because they [patients] are so helpless with their impediments, they want to learn, learn”. (Executive 2)

“Studying has been a lifelong process for me, I’m studying also at the moment. Our profession requires constant development of your skills.” (Key person 1)

“Our profession is, in a way, very exceptional... Inquisitive for new knowledge. A physiotherapist who hasn’t educated him- or herself at all, is very rare.” (Key person 5)

Customer service and appointments with customers is a central element of everyday operations in the acquired units. Especially the traditional service that takes place in face to face interactions has been perceived as important in terms of delivering high quality and generating positive customer experience.

“I am traditional in a way, that I think it is great to go a place where they say “Welcome, please take your jacket.”, and “Would you like to have some water or coffee?”, “What a lovely weather outside, isn’t it?”. These kind of things. I’d like to have these kind of things, but no.” (Key person 1)

“Of course we have always valued the customer. We’ve had a wonderful customer service and personal relationships with our customers.” (Key person 2)

Among a profession such as physiotherapy, it is crucial to produce high quality services that pay attention to the overall well-being of the customer. Therefore, it is a common perception that high quality physiotherapy cannot be carried out by using some modern information technology solutions, e.g. by delivering a therapy session through video.

“This online-training, it caused a small debate, I knew it would cause such a small debate. [...] They saw all the possible threats in it.” (Executive 1)

“It is new for us, and I think they should be tested and developed before launching.” (Key person 1)

”He [the other founder] doesn’t understand the fact that when we have a traditional industry, they have always worked in a certain way. You cannot do stuff like that there, really. You don’t do that because you make people [the therapists] and the customers nervous. [...] If we are developing some IT-stuff, it is okay to make experiments there. But you cannot go and do physiotherapy randomly. (Executive 2)

4.2.3 Summary of different dominant logics

Central inborn values that guide both ACQUIRER and ENTITIES’ everyday practices is to help and show high respect on other people. Thus, people and their well-being are in the centre of every practice. Another feature that stems from both parties is a constant hunger for new knowledge and willingness to learn and develop oneself. Inborn curiosity characterizes the founders and the therapists which in turn pushes them to acquire, possess and utilize new knowledge in their work. The biggest contradictions between the dominant logics of ACQUIRER and ENTITIES are detected in their orientations towards change, the perception of what are the right methods of conducting quality business, and the motives that drive them to achieve their objectives.

As ACQUIRER shows a relatively high level of innovativeness and flexibility (e.g. in decision-making), the company can be described as contemporary in comparison to traditional big healthcare companies. Due to the constantly changing environment, the dominant logic of ACQUIRER directs its decision-makers towards new innovative solutions (e.g. “digital physiotherapists”), which in many cases is perceived as foreign and even hazard from ENTITIES’ perspective. This is due to their preference in performing quality work through more traditional ways of conducting business.

“I’ve been thinking about this... These days when it is fashionable to have all these kind of [...] persons who sell some products in the internet... Now there are also “digital physiotherapists” who stare you on the camera and ask “do you feel pain in your back” and “do this, hold on that”, it is quite... They are new for us, and I think they should be developed more and tested before they are taken as a common practice.” (Key person 1)

“In the end, this kind of an operating model that [the other founder] represents, frankly speaking, it is forbidden. It is morally an unsustainable way to do it. Only tested, ready-made models are suitable for launching. (Executive 2)

Flexibility contains also a natural orientation towards change and the ability to make fast decisions. Therefore, ACQUIRER contains a higher level of change-orientation, whereas stability and change-resistance are more commonly valued features in ENTITIES. Constant need for change is perceived even as exhausting and overwhelming from the therapists’ point of view.

“The company contains [...] a very fast decision-making mechanism, a lot of initiatives are put under consideration, and at the same time they are changed all the time along the way, through learning. Sometimes it is [...] hard for the organization in a way, that when a change is made, we need another change to change that previous change. (Executive 3)

“They are buying, buying, buying constantly. I think that the employees and unit managers hope them to calm down a bit.” (Key person 1)

Motives that drive ACQUIRER and ENTITIES in their work are also slightly different. ACQUIRER seems to possess a higher level of goal-orientation in terms of financial matters, whereas it is more important for the therapists in ENTITIES to do work that has meaningful outcomes. In other words, the therapists are more value-oriented than driven by monetary rewards.

”[The other founder] monitors the numbers. Purely the turnover, operating profit. I rather monitor the reputation of the company, because I know the reputation from the inside.” (Key person 5)

Summary of the characteristics of ACQUIRER and ENTITIES’ dominant logics is presented in Table 2.

DOMINANT LOGIC	
Acquirer	Acq. entities
people-oriented	people-oriented
learning	learning
change-oriented	change-resistant
flexibility	stability
innovativeness	quality
contemporary	traditional
goal-oriented	value-oriented

Table 4. Summary of dominant logics

4.3 Microfoundations of dynamic capabilities

In this sector, the results are presented both in terms of microfoundations and dynamic capabilities that take place among ACQUIRER and ENTITIES. Individual level microfoundations reveal the everyday processes, resources and learning capabilities that are carried out and possessed by individuals of ACQUIRER and ENTITIES, whereas the dynamic capabilities presents the processes, resources and learning perspectives from a broader perspective, that is in the acquiring and acquired companies in general.

4.3.1 Microfoundations of dynamic capabilities: ACQUIRER

Individual level microfoundations reflect the everyday processes, resources and learning aspects and capabilities that are carried out and possessed by individuals, e.g.

executives, heads of different departments and regional managers of ACQUIRER. Dynamic capabilities, on the other hand, present ACQUIRER's organizational routines, resources and learning capabilities as a larger and dynamic phenomenon that takes place in the organization in general.

Microfoundations

Due to the clear management structure and division of labor, every individual in ACQUIRER is able to work according to the persons' strengths, interests and know-how. **Processes** on the individual level include e.g. management of people (especially knowledge management through prevailing data), problem-solving, decision-making, acquiring and management of integrations, sparring, monitoring, and reporting.

"We have some challenges on the table, I'll assist, let's figure them out together. That's my job." (Executive 2)

"[...], all the sparring, and intervening and monitoring the numbers of the therapists and in general. Also all practical issues, challenges, recruiting, and all... [...] Basically a unit manager decides if there is a need for recruiting. [...] In those kind of things the role of the regional manager is to assist and spar the unit manager so that he can succeed." (Executive 3)

Therapists and their performance is monitored through weekly provided reports through which they can follow their progress.

"[...] we have taken it to the therapist level, our therapists get a weekly report which reviews the number of clients and new clients, personal NPS, and compares it to their history." (Executive 1)

Resources possessed by individuals in the acquiring company contain e.g. executives' high level of experience of various fields and business in general, their already existing network and networking skills, high level of know-how and good communication

skills. Personal resources and capabilities, for instance, are allocated in a way that supports the individual performance.

“Let’s take, for example, financial administration. All financial matters are under the control of the financial director.” (Executive 1)

Learning capabilities of e.g. executives show that they are eager to learn and develop themselves constantly. As the company faces new situations and acquires more units, they learn on the way. The executive trio (founders and financial director) are a solid part of most of ACQUIRER’s operations, which keeps them up to date of what is happening in the organization. One important channel through which the trio draws new information and knowledge is the people they work with.

“I, at least, learn a lot from people. [The financial director] told it to me when he learned to know me. I hadn’t paid attention to it, but I do actually draw from people and learn from them.” (Executive 1)

“I am still strongly taking part in everything, I... These people, they like to brainstorm, and I like to do it as well.” (Executive 2)

Dynamic capabilities

In order to optimize the organizational performance, many of the processes that were taking place in ENTITIES before the acquisition, are now centralized. Thus, collective level **processes** include a high level of centralization in areas such as marketing, customer service, invoicing, and IT-services. Knowledge management, which contains reporting and monitoring of e.g. financial data, is preferred in manager–subordinate interactions and sparring discussions.

“Basically, the same systematics is used everywhere. Whether it is something to do with the management, strategy or responsibilities, therapy protocol, invoicing. [...] Invoicing works everywhere in a

same way. Management should work everywhere in a same way.”
(Executive 1)

“Surely we are trying to, e.g. through data, provide them new tools, which affects to their work.” (Executive 2)

“What [ACQUIRER] has brought to the knowledge management, it is all the reports and monitoring on a daily basis, and that... we are totally on a different level.” (Key person 2)

ACQUIRER possesses a high level of both tangible and intangible assets that are complementary in many way. **Resources** contain e.g. financial, digital, intellectual, and geographical assets that are used efficiently throughout the organization. ACQUIRER has a broad geographical cover (over 80 units nation-wide) that ensures a comprehensive view over the market.

“It [ACQUIRER] has the volume power which is acquisitions, centralization of services which includes service experience to which our capabilities are aligned, [and] the Academy. There is digitalization, among other things. There is a supreme digital presence, to which digital development, reporting and analytics are related to.” (Executive 1)

“From the personnel point of view, and after the first shock and change period, [the acquirer] has brought loads of good things into the everyday work, and those bigger shoulders that were longed for. There are quite a lot more resources.” (Key person 2)

The resource allocation goes hand in hand with the centralization of e.g. IT, marketing and accounting, and therefore it contributes to the overall organizational performance. As the key strengths of personnel has been identified, everyone is able to contribute to positive organizational outcomes in the best possible way.

“You should recognize which task requires a certain strength, and put the most capable person to do the task.” (Executive 2)

“Now we didn’t have to provide them [financial reports] by ourselves, it is now [the financial director] who provides them. Same thing with IT- and marketing development, there are people who are responsible for those areas, thus I don’t have to know and master everything.” (Key person 5)

From the aspect of organizational **learning**, the company has many channels through which the therapists and managers are able to develop themselves and acquire more knowledge. Knowledge sharing and providing readiness for good management are thus central factors in the company’s culture.

”[ACQUIRER] is advanced in terms of sharing good practices. They are taking, sensing the places where people have good practices [...]. In that way, [ACQUIRER] is very progressive.” (Key person 1)

“They have a good training program for unit managers. They provide us tools, clearly tools to which we are able to lean on both financially and professionally in personal discussions that contain goal-setting.” (Key person 3)

The company has a transparent intranet called the Compass which works as an information and feedback channel, and to which also the quality auditing system in the company is partly based on. Moreover, the Compass works as a learning platform. All the information and e.g. instructions are made transparent and available for the personnel in the platform.

”We have [the Compass] which is an intranet. It has [...] different kinds of functionalities, it has a Moodle-learning platform, Google search [...]. All the instructions there are transparent for everyone.” (Executive 1)

”Basically, we have one common quality system. It has been audited, and it is based on [the Compass].” (Executive 1)

Besides the Compass, therapists are able to educate themselves further through an in-house training system called the Academy. The Academy offers free courses for the therapists and managers which help them to develop and improve their skillsets, and followingly, to enhance the quality of work.

“[The Academy] is a good example in our business speech... we have acknowledged the meaning of education system and our complementary training system, and it is one of the most important drivers of well-being at work. It is also a very central factor in terms of our quality.” (Executive 2)

4.3.2 Microfoundations of dynamic capabilities: ENTITIES

Individual level microfoundations, that is the personal processes, resources and learning capabilities, take place in everyday lives of individual physiotherapists and managers in ENTITIES. Dynamic capabilities, on the other hand, present ENTITIES' organizational routines, their resources and learning capabilities in a broader perspective.

Microfoundations

Central **processes** of physiotherapists and their managers include the therapy work itself and customer service. Furthermore, following the utilization rate in calendar was a common practice among therapists and practitioners. In many cases, the manager of the unit was the one who made the decisions related to everyday practices such as marketing, customer acquisition, accounting, and other running issues.

“I assume mom followed purely her calendar, what is the utilization rate and sales rate.” (Key person 2)

”[...] making a new appointment was kind of outsourced from the therapist to the office.” (Key person 4)

”Usually, a physiotherapist is not necessarily too capable of making financially rational decisions. They don't necessarily understand

the connection between their personal outcomes and the financial decisions they make.” (Key person 2)

Monitoring and reporting at some level has occurred in ENTITIES, however, physiotherapists have shown rather low interest towards financial matters.

“Well, it is quite critical to follow the empty slots in calendar, for sure, they followed that. But personally, I’ve been quite enthusiastic to make all kinds of reports. [...] Lifting up some issues and showing by numbers that hey, this is how we roll. But we’ve allowed therapists to pick up the necessary things, no one has forced them.” (Key person 4)

“Of course we have had knowledge management as well, our monitoring has been electric over ten years already. We do have monitored personal revenues, but I can tell that... I think it is quite rare in many companies in this industry.” (Key person 5)

“Therapists are not per se people who are able to manage financial matters in any way. This is a true story.” (Key person 2)

Resources on the individual level contain a high level of expertise and experience among the physiotherapists. Even though the incompetence in e.g. financial matters showed to be a common feature among the therapists, it seems that they do not perceive it as a lack in personal capabilities. Genuine interest for people and their well-being, as well as carrying out quality therapy, often actualized in long term relationships with customers.

“Of course we have always respected the customer. We’ve had really good customer service and personal relations with our customers. The key competitive factor in our operations has been high-level experts, we have invested to comprehensive customer service.” (Key person 2)

Learning capabilities of individual therapists base on their constant willingness to learn and become better in their work. They are learning by doing and by sharing information between their colleagues. Complementary training is often self-paid which implicates their genuine interest towards their personal development.

“They have such a strong passion for learning, but the work itself also requires learning.” (Executive 2)

“Everyone, everyone [had their personal training programs]. Very clear ones. We planned together the training path.” (Key person 2)

Dynamic capabilities

As well as on the individual level, **processes** on the collective level include essentially the therapy work and taking care of the customer relations. Data in this research implicates that there are some common incompetence in areas, such as networking, marketing, digitalization, and management in the industry in general. For instance, the lack in marketing skills was reflected in rather traditional ways of delivering marketing practices.

“[...] there is a lack of networking skills, sales and marketing skills, digitalization skills, and what else there [in a report of Ministry of Economic Affairs and Employment in Finland] was. If I remember correctly, there were five of them. Management capabilities was one.” (Key person 5)

“[...] let’s say that during the previous owner, then there was basically no marketing. We had a webpage, of course the time was a bit different as well, and then we had an ongoing ad on a local paper. That’s it. [...] it was still in its infancy in comparison to what we have now.” (Key person 4)

One of the most essential intangible **resources** in the industry in general is the high level of quality, know-how and experience. Many units have invested a lot on internal

well-being which have resulted in a low turnover rate. Furthermore, monetary resources were in many cases allocated to complementary training.

“We have always invested a lot in our working community. To our internal well-being, sometimes we’ve successful, sometimes not. We’ve had very long employment relationships. [...] Turnover rate has been very low. [...] Training budget in a firm our-sized, it was huge. It was probably our biggest expense.” (Key person 2)

From the **learning** aspect, it is common for physiotherapists to share their knowledge with their colleagues. Brainstorming of challenging customer cases and knowledge sharing happens often during in-house training sessions or collective coffee breaks. Some units have had even their own structured training calendar.

“It has been nice to notice that also other units have taken practices and learned from us.” (Key person 1)

“We have a long history with [the previous owner], and also in other units about it. That it is not new per se, but [ACQUIRER] has tried to emphasize it as well, that is to discuss about patients and going through cases.” (Key person 4)

“We had a clear system in which we had a whole day for internal training every month. [...] It was organized so that we had separate spring and autumn periods, we had a clear training calendar for internal training. It happened so that our physiotherapists brought their own know-how and information from external trainings to others.” (Key person 2)

4.3.3 Summary of different microfoundations of dynamic capabilities

The emphasis in the result setting is put on the dynamic capabilities due to their relevance for the research question of this study. However, the individual level processes, resources and learning capabilities of ACQUIRER and ENTITIES are made explicit and they are presented in Table 5 in order to capture the holistic picture of the

formation mechanisms of higher level capabilities. Higher level capabilities, that is firm-specific dynamic capabilities are, after all, formed through individuals and their capabilities.

PROCESSES		RESOURCES		LEARNING	
Acquirer	Acquired entities	Acquirer	Acquired entities	Acquirer	Acquired entities
management	therapy work	experience	experience	learning by doing	learning by doing
problem-solving	customer relations	know-how	know-how	learning from people	training
decision-making	decision-making	networking skills	interest in people		passion for learning and development
sparring	(monitoring)	communication skills	quality		
acquisitions					
monitoring					

Table 5. Microfoundations of ACQUIRER and ENTITIES

From the dynamic capabilities' point of view, the M&As have brought many positive side effects. Through the M&As, both ACQUIRER and ENTITIES were able to gain complementarities to their already possessed capabilities. In case of processes, for example, knowledge management through ready-made analyses and reports has made the management of people in the acquired units more convenient and effective. Training of the unit managers has also had a great meaning in terms of quality and convenience in management work.

"Managing through ready-made analyses. Then they can locally think what to do to their operations." (Executive 1)

"Good things have appeared, they have trained us since the beginning. We've clearly had certain things, highlights, to which we need to focus on. They have been easy to rely on." (Key person 3)

In case of tangible and intangible assets, both parties gained valuable resources, e.g. complementary know-how and experience of business and the industry in general,

which has a positive effect on the overall performance. Due to an effective resource allocation, everyone in the company is able to perform according to his or her personal strengths and interests.

"I don't have to do and know everything by myself. Before, I had to understand things about Google-optimization [...]. Today, someone else is taking care of the financial administration, I don't have to get involved in that." (Key person 5)

In-house training system through which the physiotherapists and unit managers are able to acquire new knowledge and know-how has been experienced as one of a kind. There is no other place which to same extent allocates resources and invests in internal training and development.

"Training here is awesome, many of the employees are here because of the training. [The Academy] is one factor why people like to be part of [ACQUIRER]. We have proper trainers and training, you are able to educate and develop yourself as much as you like." (Key person 1)

"There is no other place that offers training for managers. There is no other place that educates their personnel for free. [...] No other place does this." (Key person 3)

Even though there are plenty of positive complementarities in processes, resources and the aspects of learning that eventually contributed to the overall performance of the company, some of the new practices caused hesitation and contradictions among employees in ENTITIES. The biggest contradictions in distinctive processes were found in collective level processes. Summary of the dynamic capabilities of ACQUIRER and ENTITIES is introduced in Table 6.

PROCESSES		RESOURCES		LEARNING	
Acquirer	Acquired entities	Acquirer	Acquired entities	Acquirer	Acquired entities
centralization	therapy work	financial	quality	manager training	knowledge sharing
marketing	customer relations	digital	know-how	the Compass	internal training
invoicing	(monitoring)	intellectual	experience	auditing	training calendar
IT-services		geographical	low turnover	the Academy	
monitoring	lack of marketing, financial, digitalization, management skills	infrastructure			
knowledge management	decision-making	network			
decision-making					

Table 6. Dynamic capabilities of ACQUIRER and ENTITIES

Centralization of several operations, e.g. customer service and making appointments has now directed to a centralized call center, and there are less and less customer servants at the units. This has created resistance among the therapists and practitioners, even though the centralization of services has created many benefits as well.

“[...] the whole personnel was terrified about the fact that now they cannot answer the phone locally.” (Executive 2)

“This change has occurred and I do have protested it. [...] Those customers who came to us, they used to say that ‘it is so lovely to come here, it is like coming home’. Now it has become more cold and clinical.” (Key person 1)

Monitoring the performance and relying on ready-made reports in sparring discussions between managers and subordinates has in some cases created a negative feeling of control and micro management. Furthermore, as the core of the strategy and operations is to provide tools for a good therapy relationship between the therapist and his or her customers, too strict financial control and monitoring may violate the formation of this relationship.

”What [ACQUIRER] has brought in terms of data, all the reporting and monitoring on a daily basis, and... we are on a whole different

level. However, our therapists don't want that. [...] they are still not interested in financial reporting.”(Key person 2)

“There is a common fear [...] among the personnel [...] that how strongly they [ACQUIRER] are going to control us financially. To micro manage.” (Key person 5)

”The core of our business is a good therapy relationship. If we have a management system which monitors the numbers only, you start very easily to report the numbers upwards [to the executives]. Immediately, you forget the good therapy relationship.” (Executive 2)

Another possible contradiction occurs in personal branding and marketing of physiotherapists. As physiotherapists in general are described as rather modest and not money-oriented people, it seems to be challenging for them to market their personal know-how and products.

“The message that [ACQUIRER] communicates more and more is that the customer acquisition is personal sales work.” (Key person 2)

“I've tried to encourage them to come up with some ideas through which they want to sell their personal know-how. [...] But they never do it, even though I give them free hands to deliver. [...] They do everything else, but marketing is such a hard field for them.” (Key person 1)

“We've emphasized personal branding more and more all the time. I've worked on it a lot in our unit. There is a common problem in our profession [...] that they can't buy the idea. [...] It is a national wide challenge, that they cannot... for example personal trainers are less educated and capable than physiotherapists. Still they are better presented in media.” (Key person 5)

As the integrations took place, several of the key persons felt slightly hesitant of making decisions independently. They were not sure of their personal responsibilities and what kind of decisions they were allowed to make, which was related to the loose management system in the beginning. Before acquisitions, the owners in the independent units were able to make fast decisions by themselves. After the acquisitions, however, they realized that decision-making in the new company was not as flexible in comparison to what they had in past.

“It had an effect on my decision-making, I almost had to ask if I was allowed to buy toilet paper. [...] which stiffened our operations. Because I was used to make decisions independently. (Key person 1)

“Well, decision-making in a big firm is surely more inflexible, or it takes longer than in a small firm. In a small firm you can make the decision immediately, whereas now we [...] have multiple steps.”(Key person 2)

5 FINDINGS

In this chapter, the research findings are presented and they are tied to the existing literature. Findings are presented by utilizing the conceptual model of dominant logic and microfoundations of dynamic capabilities. Conceptual model in Figure 5 reveals the common features of dominant logics and microfoundations of dynamic capabilities of ACQUIRER and ENTITIES. By exposing micro-level phenomena, that is the characteristics, values, expectations and experiences of individuals, and the individual level microfoundations, it is easier to understand the formation mechanisms of dominant logics of both parties, as well as their connections to the development paths of organizational routines and capabilities that take place on collective level.

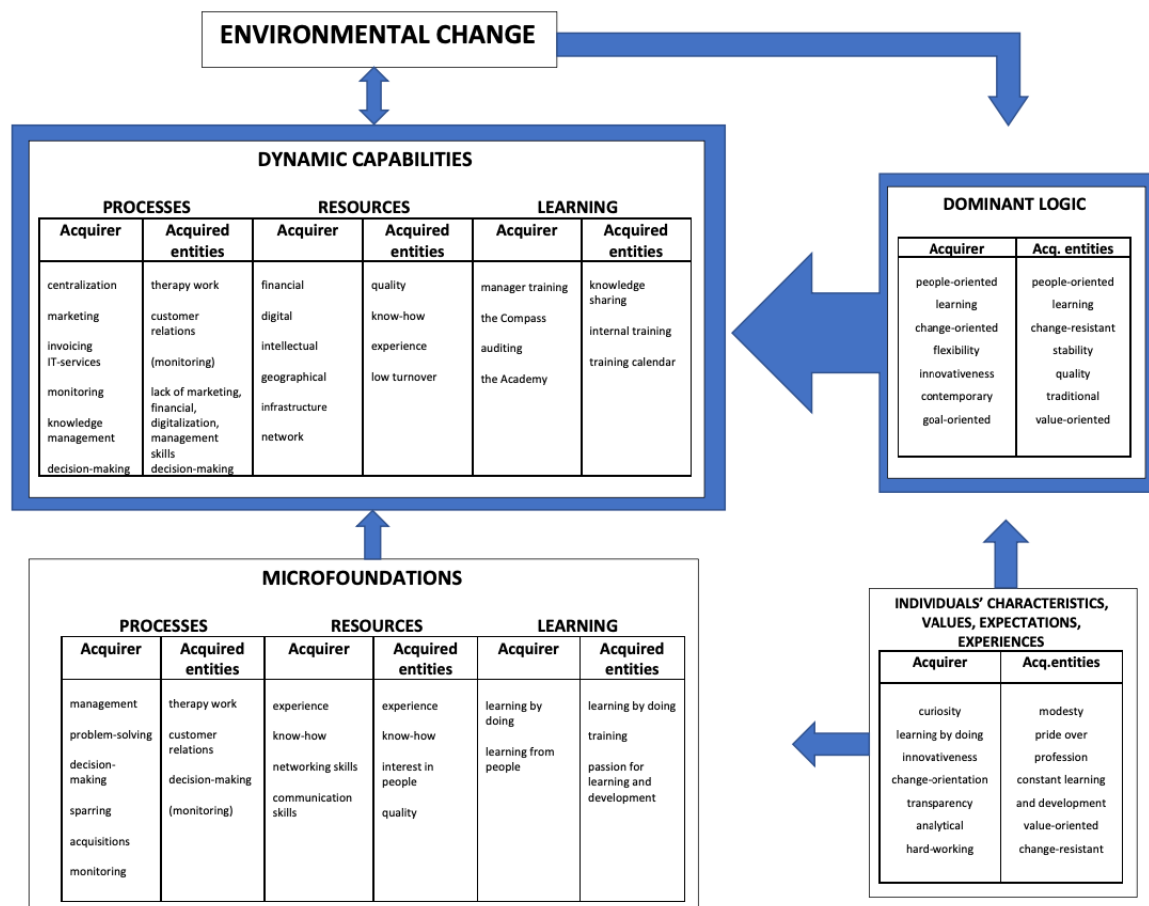


Figure 5. Conceptual model of ACQUIRER and ENTITIES

Conceptual model reveals the individual level organizational processes, resources and learning capabilities through which the more dynamic collective level capabilities are

molded. Because dominant logic is a collective phenomenon in organizations, and this research aims to expose dominant logics' influence on the development paths of microfoundations of dynamic capabilities in M&As of the Finnish healthcare company, the findings of this study for now on concentrate on phenomena that take place on macro-level in the organizations in question.

Firstly, the dominant logics of ACQUIRER and ENTITIES are presented and their common features are explained and tied to the existing literature and research. Secondly, the development paths of dynamic capabilities are viewed in terms of how dominant logic of both entities has affected to the formation of a certain set of organizational capabilities. Thirdly, contradictions that emerged in M&A processes, and that are caused by different dominant logics and therefore different ways of acting, are presented and discussed. Lastly, how the management of these contradictions by ACQUIRER will be reviewed.

5.1 Weak versus strong dominant logic

As the dominant logic of an organization is developed through individuals', often founders', characteristics (Prahalad & Bettis, 1986; Bettis & Prahalad, 1995), the results of this study correlate with the fact that different personalities, values and expectations result in different dominant logics. Even though both parties showed a high level of respect for people, and they both were highly passionate for continuous learning and self-development, there are some features in collective dominant logics that caused the distinctive orientations and preferences of ACQUIRER and ENTITIES. Results implicate that ACQUIRER possesses features of a **weak dominant logic**, whereas ENTITIES contain characteristics of a **strong dominant logic**. Moreover, ACQUIRER is shown to be more goal-oriented, whereas ENTITIES prefer to make meaningful work rather than aiming for monetary rewards, which refers to a high value-orientation among therapists and practitioners. Summary of both parties' dominant logics and their features are presented in Table 7.

ACQUIRER	ENTITIES
WEAK	STRONG
people-oriented	people-oriented
learning	learning
change-oriented	change-resistant
flexibility	stability
innovativeness	quality
contemporary	traditional
goal-oriented	value-oriented

Table 7. Weak versus strong dominant logic

According to Côté et al. (1999) and Nätti (2005), the dominant logic of an organization may explain how the organization perceives emergent organizational and environmental changes. As ACQUIRER has encountered many acquisitions and changes during its whole lifetime, it is apt to perceive new challenges as a learning experience and a means to achieve something new and better. Change is thus considered as a natural part of the company. Moreover, ACQUIRER aims to sustain its rather flexible nature to better face various upcoming obstacles in its operations. Therefore, the dominant logic of ACQUIRER shows a high level of change-orientation, which is also a common feature of a weak dominant logic (Nätti, 2005, p. 157).

ENTITIES, on the other hand, stay more resistant to constantly appearing changes in the organizational setting. They would rather calm down the rash operations that take place at the corporate management level, and focus on the work itself. As their work require a certain level of stability, constantly changing direction often makes them anxious. Furthermore, ENTITIES appreciate high quality when treating their customers. Thus, there is no room for innovative and hazard experiments. According to Nätti (2005), the level of innovativeness is often dependent of how weak versus strong the dominant logic of an organization is. ACQUIRER draws new information constantly from people and the external environment, which results in lean thinking and a high level of innovativeness and experimental atmosphere in the company. As dominant logic filters the information relevant to the organization in question (Bettis & Prahalad, 1995), incumbent organizations, in this case ENTITIES with a strong dominant logic, are apt to perceive new challenges and problems in a way that is

consistent with the organization's existing knowledge and resources (Teece, 2009, p. 37). Consequently, ENTITIES are not used to encounter change and new situations on a regular basis due to their desire for traditional, peaceful working style.

5.2 Development paths of microfoundations

As Kogut and Zander (1992) and Teece (2009, p. 37) remark, organizations tend to invest in resources that are in line with the existing capabilities and expectations regarding future opportunities. Same notion seems to apply in case of ACQUIRER and ENTITIES. Because of the dominant logic's far-reaching influence in organizations (Bettis & Prahalad, 1995), it is reasonable to address its effects on the development paths of various organizational processes, resources and learning aspects in order to comprehend its multi-sided nature in M&A processes.

Due to ACQUIRER's weak and ENTITIES' strong dominant logic, the development paths of microfoundations of dynamic capabilities seem to be slightly different. As the organization's ability to learn relates directly to its innovative performance and the development of capabilities over time (Cohen & Levinthal, 1990; Kogut & Zander, 1992), it seems that the dominant logic of the organization directs the dynamics between processes, resources and learning, and therefore the development paths of collective microfoundations. Figure 6 presents the cycle in which the dominant logic of ACQUIRER and ENTITIES has directed the formation of certain organizational processes, resources and learning capabilities that further result in firm-specific dynamic capabilities. As relevant information from the external environment is continuously filtered and intertwined with the organization's strategy and systems, and reinforced through feedback, the relationship between environmental change, dominant logic and dynamic capabilities can even be seen as a feedback loop (Bettis & Prahalad, 1995; Nätti, 2005: 157).

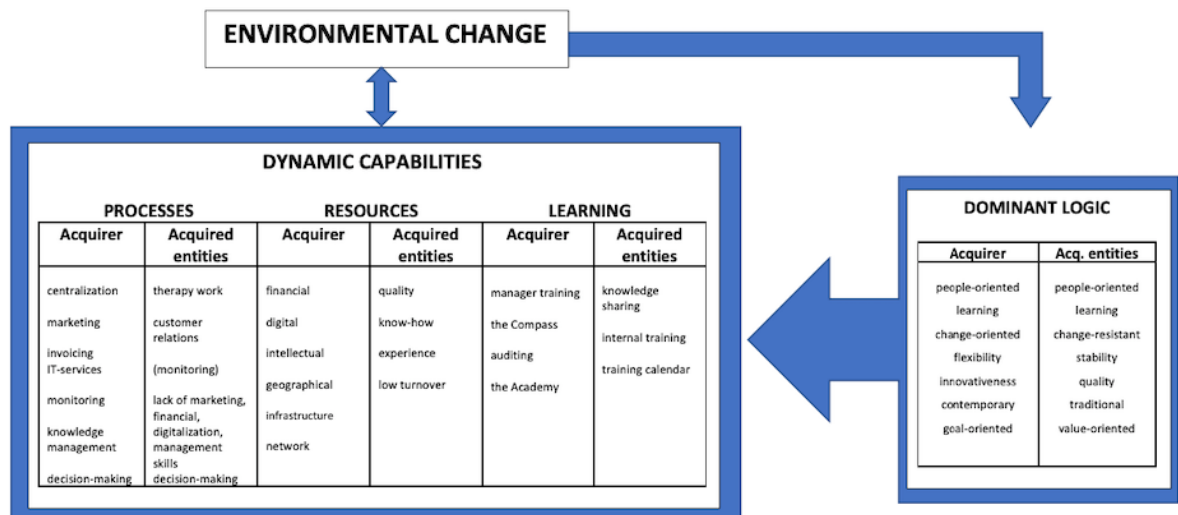


Figure 6. Development paths of dynamic capabilities

Teece (2007; 2009, p. 3–4) emphasizes the fact that highly innovative organizations typically possess strong dynamic capabilities, and therefore, they are able to adapt to, and even shape the operating environment through their innovations. ACQUIRER has a great set of e.g. financial, digital, intellectual and geographical assets, and a wide network of different affiliates. They are highly goal-oriented and positive that their enormous inputs result in great success in the end. As ACQUIRER is naturally change oriented and tend to accept and adapt different change situations, it possesses highly diverse tangible and intangible assets through which it is able to modify its operations according to the prevailing needs. In order to predict future and build various scenarios, ACQUIRER has to contain several organizational processes that together support the overall performance of the company. To conclude, the weak dominant logic of ACQUIRER prepares the company to face the change and survive upcoming challenges through a wide set of organizational processes and resources, and a high absorptive capacity. This notion is also approved by Nätti (2005, p.157), who states that in many cases a weak dominant logic results in an organization's high ability to change its processes according to external requirements.

Despite of possessing rather moderate amount of tangible (e.g. financial and digital) resources, ENTITIES contain a high level of intangible assets, that is know-how and experience in the field of physiotherapy. Followingly, many of the organizational and personal investments are made to support self-development and to improve the quality

in work. Because the main objective of business is to carry out high quality treatment to customers, most of the organizational processes are executed to support that goal. The lack of capabilities in areas such as marketing and financial matters has not, however, bothered ENTITIES, because their greatest desire is not to maximize profits, rather it is to make meaningful work. Strong dominant logic of ENTITIES has thus directed the development of organizational processes, resources and learning capabilities in a way that supports the core of their work, which is to contribute to the customers' overall wellbeing. Therefore, investments towards optimizing the performance and maximizing profits through e.g. progressive digital systems and monitoring tools have been experienced as unnecessary in comparison to the investments to intellectual assets. It may be challenging for organizations who have a strong dominant logic to possess and acquire new ways of thinking and acting (Nätti, 2005, p. 157), and therefore, it is a somewhat challenge for ENTITIES to get used to a number of new processes that are introduced through the integration processes.

Due to significant complementarities in capabilities (Zander & Zander, 2010), that ACQUIRER has gained in M&A processes, the company has been able to optimize their operations, and followingly, generate positive organizational outcomes. Consequently, new valuable combinations of dynamic capabilities are able to be drawn (Junni et al., 2015) in the future. Centralization of the number of processes has decreased the workload of ENTITIES, and they are now able to concentrate almost purely on therapy work itself. Moreover, their lack of capabilities in various areas, such as marketing, finance and digitalization, has now being fulfilled at organizational level. On the other hand, ACQUIRER has gained valuable intellectual, infrastructural and geographical assets through the acquisitions, which enhances their ability to create unique capabilities, and further, to compete in the market. As far as the required commitments towards the integrations have been executed, parties are able to obtain and align their processes, structures and routines into one entity in a long-run (Angwin & Meadows, 2015; Haapanen et al., 2019).

5.3 Contradictions in M&As

Deeply rooted collective routines and behavior are often challenging to modify in organizations (Fallon-Byrne & Harney, 2017). In this case, different characteristics of

dominant logics of ACQUIRER and ENTITIES caused some level of contradictions in the perceptions of relevant collective processes. Contradictions that took place mostly after the acquisitions contain differences in innovativeness versus quality aspect, organizational monitoring, personal branding and marketing of the therapists, and centralized customer service.

Innovativeness versus quality

According to Teece (2007), highly entrepreneurial organizations are tend to generate innovations that help them to adjust to the operating environment. Consequently, organizations that contain a weak dominant logic are often perceived as entrepreneurial due to their tendency of drawing new information from various sources (Nätti, 2005, p. 157). ACQUIRER with a weak dominant logic is therefore open to try out new innovative solutions, e.g. digital physiotherapists, to better adjust and navigate in the turbulent marketplace. ENTITIES with a strong dominant logic, on the other hand, are more hesitant to experiment new, even hazard, innovations before they are tested appropriately and their positive effects are being proved scientifically. Thus, ENTITIES appreciate more traditional ways of delivering high quality therapy services in which the customer's overall wellbeing is the greatest priority.

Monitoring

Because of the different motives that drive ACQUIRER and ENTITIES, the perception of performance monitoring is also different. ACQUIRER possesses a high level of goal-orientation, in which monitoring and reporting play an important role. In order to predict and prepare for the future, ACQUIRER has prepared a set of tools which help it to be updated, and assist to keep its agile nature. Thus, the weak dominant logic directs ACQUIRER's actions towards change, in which goal-orientation plays a central role. ENTITIES, however, are not as goal- or change-oriented as ACQUIRER. Rather, their operations are based on values and stability that are in line with their strong dominant logic. Thus, the starting point for conducting business in case of ENTITIES is not in maximizing monetary rewards, and therefore to anticipate the future, rather it is to provide the best possible treatment for their customers.

Personal branding

Even though ACQUIRER contains a great amount of resources that enable its massive marketing efforts, the company still requires some personal marketing efforts from its employees. This causes some level of hesitation among the therapists and practitioners due to their preference of making meaningful work, rather than aiming to maximize the profits. Moreover, physiotherapists are many cases described as modest and even shy people. In other words, the strong dominant logic of ENTITIES makes it challenging for them to absorb new ways of thinking and behaving, and thus unlearn the old mindsets and patterns of behavior (Nätti, 2005, p. 157).

Centralization of customer service

In many cases, traditional local customer service has been thought to be the best way of contributing to the overall customer experience. Especially ENTITIES have appreciated the traditional system, whereas ACQUIRER has appraised a more contemporary and effective way in which making appointments and customer service is centralized for a call center. As the dominant logic of ENTITIES values traditional ways over the contemporary and performance-driven ways, the centralization of customer service has in many cases been viewed as unnecessary. From the ACQUIRER's weak dominant logic point of view, the centralization of services makes the operations more straightforward and agile which improves the overall performance of the company.

According to Shimizu et al. (2004), similarities in e.g. values of merging companies often determine the success of the M&A processes. In this case, commonalities include a high respect on people and their wellbeing, as well as a desire for constant learning and development of current capabilities. Because of an open and dialogical discussion culture, ACQUIRER and ENTITIES have been able to manage the emerged contradictions between them.

5.4 Management of contradictions in M&As

According to Shimizu et al. (2004), a proper due diligence process is critical to address issues in different values, culture and processes in M&As. Therefore, both pre- and post-acquisition efforts are important in terms of succeeding in business integrations. (Shimizu et al., 2004.) In order to open the “grey box”, that is the implicit elements of the acquired units (Zander & Zander, 2010), ACQUIRER has made pre- and post-integration interviews among the personnel in ENTITIES to address their concerns and possible conflict points related to the M&A processes. Addressing sociocultural factors already in the pre-acquisition phase has been proved to enhance the overall integration (Bresman et al., 1999; Stahl et al., 2013). Pre- and post-integration interviews are a means through which ACQUIRER is able to introduce its dominant logic and organizational microfoundations, as well as gain information of ENTITIES’s mental schemas and common organizational practices. According to Zander & Zander (2010), this is a rational learning strategy which helps ACQUIRER to promote social relationships, knowledge and culture among the employees in the organization.

As the post-integration phase is crucial in terms of succeeding in M&As (Shimizu et al., 2004), different perceptions and expectations related to the integrations need to be addressed carefully. According to Côté et al. (1999), it is possible to enhance social and cultural integration in M&As by operating under several dominant logics, thus, ACQUIRER decided to appraise the firm’s heterogeneity by e.g. making firm-unique contracts and by accepting different incentive systems of ENTITIES. This released the anxiety of employees in ENTITIES, and they were able to adjust themselves better to the changed organizational setting. Zander & Zander (2010) remark that by unpacking the organizational grey box properly in M&As, this assists the acquiring companies to attain a better reputation and legitimacy in present and future acquisitions.

Côté et al. (1999) note that even though some parts of the dominant logic are more malleable, however, they are generally resistant to change as long as there are more immovable elements in the dominant logic that confront these “weaker” elements. In case of ENTITIES, e.g. personal branding and marketing has been experienced as difficult, which implies that the prevailing dominant logic has not emphasized the importance of those matters before the acquisition. Unlearning the old organizational

mindset may thus generate the strategic learning and development of collective dominant logic (Bettis & Prahalad, 1995; Nätti, 2005) in the new organizational setting. By critically evaluating the existing capabilities, organizational schemas, and their relevance in changed situations (Nätti, 2005, p. 54; Teece, 2007), ACQUIRER is able to grow and develop themselves. Related to Côté et al. (1999) notion of the development of dominant logic, ACQUIRER had noticed the same phenomenon as time had passed, and as new organizational routines had become familiar to ENTITIES:

"[...] when the critical mass is met and exceeded, [...] it actually absorbs the rest as well. [...] If the critical mass is under the required, it is in a way able to define the culture." (Executive 2)

6 CONCLUSION AND DISCUSSION

The final chapter concludes and discusses the findings of this qualitative research. First, the main findings are reflected and their relation to the research objectives and questions is introduced and discussed. The discussion of the findings aims to attach them into a bigger picture and justifies their significance in relation to previous management literature and research. Secondly, the managerial implications of this research are presented and discussed in terms of how the findings of this study may contribute to the work of managers especially in case of M&As. Lastly, the limitations of this study are introduced, and some suggestions for future research objectives are presented.

6.1 Discussion of the findings

The objective of this research was to examine the dominant logic's influence on the development paths of microfoundations of dynamic capabilities in case of a Finnish physiotherapy company. Another aim was to reveal the contradictions and their management in M&A processes. Contradictions were caused by distinctive dominant logics, and therefore, different perceptions of relevant organizational processes of the acquiring company and the acquired entities. Moreover, the study was seeking to fill the gap in research, and study the connections between two fundamental theories in management literature. Previous research has focused on examining the theory of dominant logic and the dynamic capabilities framework mainly separately, whereas this study contributed to the previous literature and research by exploring the connections between the theories by forming a conceptual model from these two theories, and studying their relation in the same context, which is M&A processes of a Finnish healthcare company.

As the previous research appoints a challenge of merging several independently functioning units into one effectively performing entity (Krug & Nigh, 1998), many researchers have underlined the importance of examining the implicit attributes that support and guide the explicit characteristics and performance of firms (Felin & Foss, 2005; Teece, 2009). To gain insight of organizational mental models and their effect on the development paths of organizational capabilities, a qualitative abductive

research was conducted. Eight semi-structured interviews with the executives of the acquirer (ACQUIRER) and key persons in the acquired entities (ENTITIES) resulted in insightful data that presented and described common features of organizational dominant logics and the development of dynamic capabilities of each party. Before moving to the discussion of the main research question which appoints to the implicit phenomena in organizations, that is the dominant logic's influence on the development of firm-specific capabilities of the case company, it is reasonable to first discuss the explicit conflict points and their management which emerged while conducting various M&A processes.

In order to gain more insight of the contradictions that were originally caused by distinctive dominant logics, and followingly distinctive perceptions of relevant organizational processes, two supportive research questions "*What kind of conflicts are caused by different dominant logics and microfoundations of dynamic capabilities of the acquirer and the acquired entities?*" and "*How these conflicts are being managed by the acquirer?*" were introduced. Due to different dominant logics and capabilities that these distinct mental schemas highlighted, contradictions emerged in various processes and capabilities at collective level in the organizations in question. Contradictions contained differences in the innovativeness versus quality aspect, organizational monitoring, personal branding and marketing of the therapists, and centralized customer service. These conflict points were managed through transparent and dialogical pre- and post-acquisition interviews, which later appeared to be a rational learning strategy (Zander & Zander, 2010), and a tool to smoothen the M&A processes as a whole (Shimizu et al., 2004). Another crucial factor was to praise the heterogeneity of the new company, which in practice was to operate under more than one dominant logics (Côté et al., 1999). In order to open the grey box (Zander & Zander, 2010) in M&As, these efforts performed by the acquiring company proved that in the end, organizations with distinctive organizational schemas and capabilities are able to become as one well-functioning entity as far as the valuable unlearning of old practices and mindsets (Bettis & Prahalad, 1995) takes place.

After reviewing the explicit contradictions that emerged mainly after integration processes of the companies, it is logical to move to the discussion of the underlying elements behind those contradictions. Keeping the main research question in mind,

that is *“How the dominant logic has influenced the development paths of microfoundations of dynamic capabilities of a Finnish healthcare company?”*, the findings of this research implicate that the dominant logics of the case organizations reflected their founders and employees’ values, personalities, motives, expectations and previous experiences among the businesses they had entered in the past. In this case, the acquiring company possessed features of a weak dominant logic, which reflected their high orientation towards change and innovative practices. This in turn resulted in a great amount of many-sided capabilities which were allocated and presented in a way that supported the overall performance and survival of the company. The acquired units, on the other hand, possessed characteristics of a strong dominant logic, which is typical for incumbent companies (Nätti, 2005). A strong dominant logic made the acquired units value more stable organizational setting in which quality and high level of expertise played a central role. As a conclusion, the nature of each dominant logic was a reflection of each entity’s founders and employees’ personal values and preferences considering relevant methods of conducting business. As previous experiences reinforce the formation of organizational mental models (Sinkula et al. 1997; Argyris, 1999), these preferences can be considered as path dependent.

The results and findings correlate not only with the previous literature and research, but they also contribute to the formation of new scientific knowledge by introducing a new perspective to the development of dynamic capabilities of organizations. The findings of this study imply that the dominant logic of a firm may explain the development paths of organizational capabilities, and therefore, it can contribute to the formation of a unique, firm-specific set of dynamic capabilities. The findings show that the level of innovativeness and orientation towards change corresponds with how weak versus strong the prevailing dominant logic in the organization is. The weaker the prevailing dominant logic of a firm, the higher the absorptive capacity of that specific firm, and followingly, the stronger the contained dynamic capabilities. On the other hand, the stronger the dominant logic, the lower the level of absorptive capability in the organization, and therefore, the more challenging it is for the organization to reconfigure its current assets. The findings correlate with Teece’s (2007, 2014) notion, that highly entrepreneurial firms usually possess strong dynamic capabilities, and they are thus considerably open and adaptable to rapid environmental changes.

6.2 Managerial implications

This study has an external value in terms of its contribution to the existing knowledge and literature by exploring the connections between two fundamental theories, the theory of dominant logic by Bettis and Prahalad (1995) and the dynamic capabilities framework by Teece et al. (1997), among organizational research. The study reveals the formation mechanisms of often implicit organizational phenomena of different organizations in the same field, which in turn can assist other organizations that encounter M&A processes to acknowledge a number of crucial elements in order to succeed in integrations.

This research offers one perspective to comprehend the development of firm-specific dynamic capabilities, which is often considered as a rather abstract organizational phenomena. In many cases, there are implicit elements that guide the decision-making process and investments made in an organization, gaining a comprehensive understanding of these elements may improve the decision-making mechanisms, and further, result in better organizational performance.

As many elements of organizations are implicit, rather important, the findings of this study may assist managers to navigate among different M&A processes, and understand the cause and effect relations between implicit and explicit organizational phenomena. Making managers, and even other organizational members, aware of the underlying attributes that in many cases direct the operations and performance of whole organization, it may be easier to motivate the whole organization towards strategic change. By being aware of your own starting points, it is easier to tackle the emerged conflict points both inside the organization, as well as while facing e.g. integration processes.

6.3 Limitations and suggestions for the future research

Even this research, however, has some limitations. The subject of this study deals with rather abstract organizational phenomena which are mostly implicit and challenging to perceive explicitly. As empirical studies usually contain some level of researcher's own interpretation, it is possible that there are some subjective biases possessed by the

researcher that distort the empirical part of this study. To tackle this problem, a mixed research method that combines both quantitative and qualitative data collection method may be helpful. Through quantitative data, e.g. quantitative surveys, it is possible to gain exclusive data that describes the informants' responses in an objective way. This could decrease the influence of a researcher's purely subjective interpretation that may be somehow biased, and therefore, increase the reliability of this study.

As the research material contains only 8 informants and their interviews, some generalizable results that would cover the whole industry, are challenging to draw. Additionally, as the acquired units are considered as a single entity in this study due to their significant similarities e.g. in values and organizational processes, the results may not fully apply in every sector of business in every unit. However, as it would not have been reasonable to review every unit separately due to the lack of resources and limited amount of time, the generalization of the results among the acquired units was justified in order to simplify the result setting. Additionally, the research focuses on just one industry in a relatively small Finnish market, which makes it challenging to generalize the main findings in a larger perspective.

Keeping these limitations in mind, relevant objectives for future research could contain a larger sample of companies among various industries in different countries. This would provide a more inclusive set of data which could possibly lead to some generalizations. Thus, a reasonable future research objective could be a comparable study which includes international healthcare companies that have encountered or are aiming to encounter M&As. Examining dominant logic and dynamic capabilities and the connections between these two will in the best case bring not only value for companies, but also value and new insights to the research community as well. The usefulness and relevance of the conceptual model should therefore be tested in other contexts and industries as well, e.g. domestic or international M&As of IT-firms, before any generalizations of the dominant logic's influence on the development paths of microfoundations of dynamic capabilities can be drawn.

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APPENDIX

The interview structure

1. Haastateltavan oma työhistoria ja työrooli aikaisemmin sekä tulevassa entiteetissä

2. Liiketoiminnan luonne ja ohjaus sekä rutiinit ylätasolla

- liiketoiminnan historia
- tuote-/palvelustrategia
- riskinotto ja niiden hallinta
- toimiala ja operoinnin tyyli ja tapa toimialan sisällä
- liiketoiminnan ohjautuvuus
- mitä johto/ostettu yritys tekee päivittäin
- kuinka yhteistyö näkyy päivittäisessä/viikoittaisessa toiminnassa
- yhteydenpito sidosryhmiin
- kuinka johto seuraa, mitä yritykset ja työntekijät tekevät päivittäin/viikoittain
- laatu näkemys
- M&A -tausta
- byrokraattisuus, systematiikka ja erilaiset periaatteet toiminnoissa
- muutosjohtaminen

3. Johtaminen

- omistajuus ja johtajuus yleensä → miten tähän on tultu
- arvot ja toiminnan luonne
- tuloksellisuus ja sen mittaaminen eri tasoilla strategiasta operatiiviseen toimintaan
- kuinka seurataan tavoitteiden saavuttamista

4. Työskentelyn systemaattisuus

- prosessit, ohjeet, seuranta
- yksin työskentely versus ryhmäytyminen
- kontrolli

5. Kulttuuriset toimintatavat ja periaatteet

- kuunteleminen ja kuulluksi tuleminen
- konfliktien ratkaisut ja niiden olemassaolo
- luottamus
- yhteistyö
- palautteen antaminen ja saaminen

6. Hallinto ja organisoituminen

- omistajuus ja omistajan ohjaus

- hallitus – johtoryhmä – vetäjät → työnjako ja vastuut
- näkyvä versus näkymätön, virallinen versus epävirallinen organisaatio
- onko funktiot eriytyneet, esim. markkinointi
- taloudellinen suunnittelu ja sen muodollisuus
- kommunikointi
- tiedonjakamisenmekanismi

7. Asiakasrajapinta

- segmentointi
- asiakkaan kohtaaminen ja saavuttaminen
- asiakastilanteet
- työkalut
- erikoistuminen organisaation sisällä
- asiakastyytyvyyden seuranta

8. Henkilöstö ja osaaminen

- palkitsemis- ja kannustinjärjestelmät
- resurssien käyttö ja allokointi
- osaaminen ja sen ohjaaminen ja ohjautuminen
- henkilöstön johtaminen
- kriittiset resurssit
- löytyykö erilaisia tapoja työskennellä
- mistä eri tahojen osaamiset koostuvat

9. Rakenteet

- formaalit rakenteet, organisaatiokaavio
- laatujärjestelmät
- toiminnan kehittäminen
- epäformaalit rakenteet
- pääomasijoittajan vaatimukset esim. raportoinnin ja liikevaihdon suhteen
- rakenteiden jäykkyys versus joustavuus
- sopimukset kolmansien osapuolien kanssa

10. Prosessit

- ydinprosessit
- prosessien johtaminen
- prosessien mittaaminen
- kriittiset menestystekijät
- seuranta ja ennustettavuus